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Overview and Scrutiny Committee Agenda

Monday, 24 October 2016
7.00 pm,

Civic Suite
Lewisham Town Hall
London SE6 4RU

For more information contact: Salena Mulhere (Tel: 0208 314 3380)

This meeting is an open meeting and all items on the agenda may be audio recorded and/or filmed.

Part 1

Overview and Scrutiny Committee Members

Members of the committee, listed below, are summoned to attend the meeting to be held on Monday, 24 October 2016.

Barry Quirk, Chief Executive
Thursday, 13 October 2016

Councillor Alan Hall (Chair) Councillor Gareth Siddorn (Vice-Chair) Councillor Obajimi Adefiranye Councillor Abdeslam Amrani Councillor Chris Barnham Councillor Paul Bell Councillor Peter Bernards Councillor Andre Bourne Councillor David Britton Councillor Bill Brown Councillor Suzannah Clarke Councillor John Coughlin Councillor Liam Curran Councillor Brenda Dacres Councillor Amanda De Ryk Councillor Colin Elliott Councillor Carl Handley Councillor Maja Hilton Councillor Simon Hooks Councillor Sue Hordijenko Councillor Mark Ingleby Councillor Stella Jeffrey Councillor Liz Johnston-Franklin Councillor Roy Kennedy Councillor Helen Klier Councillor Jim Mallory Councillor David Michael Councillor Jamie Milne Councillor Hilary Moore Councillor Pauline Morrison Councillor John Muldoon Councillor Olurotimi Ogunbadewa Councillor Jacq Paschoud Councillor John Paschoud Councillor Pat Raven Councillor Joan Reid Councillor Jonathan Slater Councillor Luke Sorba Councillor Eva Stamirowski	

Councillor Alan Till Councillor Paul Upex Councillor James-J Walsh Councillor Susan Wise	

MINUTES OF THE OVERVIEW AND SCRUTINY COMMITTEE

Tuesday, 19 July 2016 at 7.00 pm

PRESENT: Councillors Alan Hall (Chair), Obajimi Adefiranye, Abdeslam Amrani, Andre Bourne, Suzannah Clarke, Liam Curran, Brenda Dacres, Amanda De Ryk, Carl Handley, Maja Hilton, Simon Hooks, Jim Mallory, Hilary Moore, John Muldoon, John Paschoud, Jonathan Slater, Luke Sorba, Eva Stamirowski, James-J Walsh and Susan Wise

APOLOGIES: Councillors Chris Barnham, David Britton, Bill Brown, Colin Elliott, Mark Ingleby, Stella Jeffrey, Liz Johnston-Franklin, David Michael, Jamie Milne, Jacq Paschoud, Pat Raven, Joan Reid and Alan Till

ALSO PRESENT: Timothy Andrew (Interim Overview and Scrutiny Manager), Aileen Buckton (Executive Director for Community Services), Robyn Fairman (Head of Strategy), Salena Mulhere (Overview and Scrutiny Manager), Freddie Murray (SGM Asset Strategy and Technical Support), Barrie Neal (Head of Corporate Policy and Governance), Graham Norton (Assistant Director of Operations (South East)) (London Ambulance Service), Philip Powell (Stakeholder Engagement Manager) (London Ambulance Service) and Sister Josephine Udie (Vice-Chair) (London Ambulance Service Patients' Forum)

1. Minutes of the meeting held on 10 March and 30 March

Resolved: that the minutes of the meetings held on 10 March and 30 March be agreed as accurate records of the respective meetings.

2. Declarations of interest

Cllr Muldoon declared a non-prejudicial interest in relation to items five and six as a governor of the South London and Maudsley NHS Foundation Trust.
Cllr Hall declared a non-prejudicial interest in relation to items five and six as a governor of the South London and Maudsley NHS Foundation Trust and a former member of the planned LAS NHS foundation trust.

3. Response from Mayor and Cabinet to the referral on key planning issues

The Committee received the response from Mayor and Cabinet. Additional clarification was requested on the new Mayor of London’s housing targets as well as Lewisham’s position on the Mayor of London’s planning policies. Members requested further advice on how they might engage in the formation of emerging initiatives and polices.

Resolved: that the response be noted.

4. Response from Mayor and Cabinet to the referral on turning South London Orange

The Committee received the response from Mayor and Cabinet.

Resolved: that the Committee requests an update on the formal piece of work referred to in the response from Mayor and Cabinet as well as the opportunity to scrutinise the Council's rail strategy.

5. Sustainability and Transformation Plan, Devolution Pilot and One Public Estate Update

Aileen Buckton (Executive Director for Community Services) introduced the report; the following key points were noted:

In response to questions from the Committee, Aileen Buckton and Freddie Murray (Group Manager for Asset Strategy and Technical Support) the following key points were noted:

- The plans presented to the Committee were not in a finished document.
- Six boroughs had been working to look at health and social care collectively and had developed a new strategy together through the Sustainability and Transformation Plan (STP). This work benefitted from the good relationship between partners in Lewisham.
- Partners were listening to what residents were saying about the delivery of services. It was recognised that people wanted provision of services near to where they lived at times that were convenient to them. Partners were also focused on stopping people from being admitted to hospital unnecessarily.
- There would be further consultation and opportunities for the community to feed in to potential changes.
- Officers were aware of the concerns about the closure of Lewisham A&E. The STP was focused on the deficit that would be created if nothing changed in terms of local health provision.
- The proposals would allow local authorities to make greater use of the public estate.
- Lewisham had put forward an expression of interest to government, which asked for half a million pounds of funding to develop local improvements.
- Future work was likely to take place at neighbourhood level, alongside groupings of GP surgeries.
- Lewisham's neighbourhoods were split into four geographical areas across the borough. In different areas, there were different opportunities for joint working and future developments.
- Partners were looking at the Waldron centre; the Ladywell centre on the Lewisham hospital site; Downham health and leisure; the Forest Hill/Sydenham Green health centre for improved joint working.
- As part of the devolution pilot, partners in Lewisham were asking for delegated powers to enable integration of health and social care staff. There were also opportunities for the creation of multi-disciplinary teams.
- The devolution pilot would look at the scope of new roles – aligning different responsibilities rather than allowing the false divide between responsibilities to remain. The devolution pilot would give organisations the opportunity to do some more of this work together.

- Further decisions on this work would be taken in the autumn.

Aileen Buckton and Freddie Murray responded to questions from the Committee. The following key points were noted:

- Through One Public Estate, Partners were asking whether there were parts of the local estate that could be disposed of to provide better community services at local level. At present, money from disposals was kept centrally. It was proposed that, if receipts were kept locally it would enable innovation.
- GP surgeries were already working together to provide services across neighbourhoods in clusters.
- GPs were developing proposals to formally federate their practices in order to provide 8am – 8pm services.
- The Ladywell site at Lewisham hospital, was not fit for its intended purpose. The new initiative would enable partners to think about how community mental health services were provided.
- There were examples of integration and the development of multi-disciplinary teams working well together. One such was the Deptford Lounge, which had teams from different organisations in the same building sharing space and providing services to the public from a combined use building.
- There were also a number of multi-disciplinary teams working from shared buildings across London.
- The work carried out developing Lewisham's asset register had provided a greater understanding of the composition of the Council's assets.
- Work needed to be completed for 2020 in order to ensure that the local health economy was on a sustainable footing.
- There was no plan so far for for managing liabilities association with PFI deals.
- In terms of integration of IT services, there was more work to do. The Connect Care project enabled some level of integration, but the aim was to have access to detailed information on secure mobile devices.
- Requirements for teaching space at the hospital site would be taken in to consideration.

The Committee highlighted the difficulties inherent in combining systems and processes between organisations. It also highlighted the difficulty in delineating responsibilities in a private finance initiative (PFI) buildings.

The Committee agreed that it would add scrutiny of any pilot project to its future work programme.

Resolved: that - the Committee endorses the previous call by Members for the publication of the Sustainability and Transformation Plan; it notes that further consultation on the plans set out in the report will be required.

The Committee believes that the raising of capital receipts from disposal of land should be balanced against organisations' long-term revenue requirements; it also believes that NHS property should be viewed as a

public asset and the NHS should retain freeholds on land used for development.

The Committee asks that clarity be provided on the proposed future governance arrangements for the scrutiny of devolution proposals; it also notes that Lewisham's Healthier Communities Select Committee and Sustainable Development Select Committee may wish to become involved in scrutiny of the details of these projects.

6. London Ambulance Service

Graham Norton (Assistant Director of Operations, London Ambulance Service) and Philip Powell (Stakeholder Engagement Manager, London Ambulance Service) introduced the latest ambulance attendance performance times to the Committee, the following key points were noted:

- A number of issues had been highlighted during the CQC inspection of the service. Staff retention, morale and a culture of bullying had been significant issues that the Service had been working to address.
- The Service had struggled with recruitment and retention of staff. The demand for staff in some areas had been a significant limiting factor in attendance times.
- 770 new staff had been recruited in 2015/16, which meant the Service would meet its full establishment of 3169 staff.
- All recruits had to go through significant training, classroom study and the advanced driving and well as a period of close supervision before they would be able to work as paramedics.
- Lewisham and Bromley had both faced challenges in recruiting and retaining staff.
- Response times would improve as more staff became available.
- All of the Services' Hazardous Area Response Teams (HARTS) were now all fully staffed.
- 326 managers in the Service had received training about bulling and harassment.
- All managers has also been trained in risk management.
- Not all of the improvements were to do with figures. The service had also looked at the working of the control room and boosted confidence through the mental health hub.
- Work had also been carried out to address issues with multiple responses to calls – and improvements to the backup systems designed to ensure systems resilience.
- The service had seen four of the busiest months on record since January 2016. March was the Services' busiest month ever.
- As well as the high volume of cases, the Service was also dealing with more acute cases.

Graham Norton and Philip Powell responded to questions from the Committee – the following key points were noted:

- Turnaround times at hospitals were affected by both the volume and the seriousness of case being dealt with by the Service.
- The most recent figures indicated that there were 2058 cases in the previous month, where the delay was over an hour.
- Huge amount of operational hours were lost at hospitals that are unable to discharge well patients.
- Partners were working together (for example at the recent 'South East summit') to develop means of reducing handover delays, improving admission avoidance and making better use of urgent care centres.
- In Lewisham there had been 1500 hours of lost time at Lewisham hospital in the past year. There had been 31,420 hours lost across the London Ambulance Service.
- The service was also developing work to deal with frequent callers. There was one patient who had called 1000 times in three months. This was a complex issue to deal with, and required action from a range of services, including mental health.
- The Service was working to make sure that additional resources were put into the areas in which they were needed most.
- The Service expected that performance would continue to improve across London. LAS officers would continue working with clinical commissioning groups and in system resilience groups.
- Work was also taking place to make referral pathways simpler and easier.

Sister Josephine Udine (Vice Chair of the London Ambulance Service Patient's Forum) addressed the Committee about the work of the Patients' forum. The forum was monitoring the CQC improvement programme. The Forum also provided support for the Service on recruitment from the local population. The Forum was also monitoring queuing at hospitals – and working with commissioners to consider how this could be improved.

Graham Norton and Philip Powell responded to questions from the Committee, the following key points were noted:

- As one A&E become full, ambulances diverted to another location. Which ran the risk that the patient would end up in the wrong hospital. Officers from the LAS met with senior hospital management weekly to discuss pressures.
- South East London's geography meant that it was susceptible to problems caused by shortage of staff. There was a substantial distance between hospitals unlike some other parts of London, which might be able to improvise when there were fewer staff.
- The LAS had struggled in recruiting staff – but work had taken place to improve this. Only four staff left the Lewisham service in the previous month.
- Significant work had been done to improve the address finding system. The LAS control room was unique and award winning.
- Work was also taking place with public and patient involvement groups were advising on how the Service might recruit and retain local staff to work in local areas.

- Merton has the best response time in London – this was largely to do with its demographics and its geography. Because it was so busy in the vicinity of the hospitals the turnaround times could be quicker. The staffing levels in Merton were also higher.
- In July 2016, 68% of Lewisham ambulances took over 15 minutes to turn around at hospital. There were 760 handovers, 25 took longer than an hour.
- Resourcing was looked at regularly. Work predicting call volumes was most effective when every ambulance in an areas was resourced.
- A recent ruling by the coroner meant that the nearest available ambulance had to be sent to a call – even if it was likely that a nearer ambulance (such as one scheduled to be finishing a call) might be able to attend more quickly. This meant that sometimes, ambulances had to travel long distances to attend calls. The LAS medical director and the senior operatives kept the situation under review.

Resolved: that the Committee welcomes the improvement in ambulance attendance performance times and that it looks forward to continued improvements; that the work of the LAS patients forum to engage with patients be welcomed; that the Committee requests a further update on improvement works in six months; that the Healthier Communities Select Committee be invited to look at the Services' CQC improvement report; that the officers from the London Ambulance Service and the Patient's forum be thanked for their contributions to the meeting.

7. Referrals to Mayor and Cabinet

The meeting ended at 8.55 pm

Chair: --

Date: --

Overview and Scrutiny Committee			
Title	Declarations of Interest	**Item No.**	2
Contributor	Chief Executive		
Class	Part 1 (open)	24 October 2016	

Declaration of interests

Members are asked to declare any personal interest they have in any item on the agenda.

1 **Personal interests**

There are three types of personal interest referred to in the Council's Member Code of Conduct:-

(1) Disclosable pecuniary interests
(2) Other registerable interests
(3) Non-registerable interests

2 **Disclosable pecuniary interests** are defined by regulation as:-

(a) Employment, trade, profession or vocation of a relevant person* for profit or gain

(b) Sponsorship –payment or provision of any other financial benefit (other than by the Council) within the 12 months prior to giving notice for inclusion in the register in respect of expenses incurred by you in carrying out duties as a member or towards your election expenses (including payment or financial benefit from a Trade Union).

(c) Undischarged contracts between a relevant person* (or a firm in which they are a partner or a body corporate in which they are a director, or in the securities of which they have a beneficial interest) and the Council for goods, services or works.

(d) Beneficial interests in land in the borough.

(e) Licence to occupy land in the borough for one month or more.

(f) Corporate tenancies – any tenancy, where to the member's knowledge, the Council is landlord and the tenant is a firm in which the relevant person* is a partner, a body corporate in which they are a director, or in the securities of which they have a beneficial interest.

(g) Beneficial interest in securities of a body where:-

(a) that body to the member's knowledge has a place of business or land in the borough; and

(b) either
(i) the total nominal value of the securities exceeds £25,000 or 1/100 of the total issued share capital of that body; or

(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person* has a beneficial interest exceeds 1/100 of the total issued share capital of that class.

*A relevant person is the member, their spouse or civil partner, or a person with whom they live as spouse or civil partner.

(3) Other registerable interests

The Lewisham Member Code of Conduct requires members also to register the following interests:-

(a) Membership or position of control or management in a body to which you were appointed or nominated by the Council

(b) Any body exercising functions of a public nature or directed to charitable purposes, or whose principal purposes include the influence of public opinion or policy, including any political party

(c) Any person from whom you have received a gift or hospitality with an estimated value of at least £25

(4) Non registerable interests

Occasions may arise when a matter under consideration would or would be likely to affect the wellbeing of a member, their family, friend or close associate more than it would affect the wellbeing of those in the local area generally, but which is not required to be registered in the Register of Members' Interests (for example a matter concerning the closure of a school at which a Member's child attends).

(5) Declaration and impact of interest on members' participation

(a) Where a member has any registerable interest in a matter and they are present at a meeting at which that matter is to be discussed, they must declare the nature of the interest at the earliest opportunity and in any event before the matter is considered. The declaration will be recorded in the minutes of the meeting. If the matter is a disclosable pecuniary interest the member must take not part in consideration of the matter and withdraw from the room before it is considered. They must not seek improperly to influence the decision in any way. **<u>Failure to declare such an interest which has not already been entered in the Register of Members' Interests, or participation where such an interest exists, is liable to prosecution and on conviction carries a fine of up to £5000</u>**

(b) Where a member has a registerable interest which falls short of a disclosable pecuniary interest they must still declare the nature of the interest to the meeting at the earliest opportunity and in any event before the matter is considered, but they may stay in the room, participate in consideration of the matter and vote on it unless paragraph (c) below applies.

(c) Where a member has a registerable interest which falls short of a disclosable pecuniary interest, the member must consider whether a reasonable member of the public in possession of the facts would think that their interest is so significant that it would be likely to impair the member's judgement of the public interest. If so, the member must withdraw and take no part in consideration of the matter nor seek to influence the outcome improperly.

(d) If a non-registerable interest arises which affects the wellbeing of a member, their, family, friend or close associate more than it would affect those in the local area generally, then the provisions relating to the declarations of interest and withdrawal apply as if it were a registerable interest.

(e) Decisions relating to declarations of interests are for the member’s personal judgement, though in cases of doubt they may wish to seek the advice of the Monitoring Officer.

(6) Sensitive information

There are special provisions relating to sensitive interests. These are interests the disclosure of which would be likely to expose the member to risk of violence or intimidation where the Monitoring Officer has agreed that such interest need not be registered. Members with such an interest are referred to the Code and advised to seek advice from the Monitoring Officer in advance.

(7) Exempt categories

There are exemptions to these provisions allowing members to participate in decisions notwithstanding interests that would otherwise prevent them doing so. These include:-

(a) Housing – holding a tenancy or lease with the Council unless the matter relates to your particular tenancy or lease; (subject to arrears exception)
(b) School meals, school transport and travelling expenses; if you are a parent or guardian of a child in full time education, or a school governor unless the matter relates particularly to the school your child attends or of which you are a governor;
(c) Statutory sick pay; if you are in receipt
(d) Allowances, payment or indemnity for members
(e) Ceremonial honours for members
(f) Setting Council Tax or precept (subject to arrears exception)

OVERVIEW & SCRUTINY COMMITTEE			
Report Title	Appointments		
Key Decision	No		Item No. 3
Ward			
Contributors	Chief Executive (Head of Business & Committee)		
Class	Part 1		Date: October 24 2016

1. Appointments

1.1 Background

The Committee is asked to consider appointments to vacancies currently existing on Select Committees, any changes required as a result of the Brockley and Evelyn Ward by-elections which are scheduled to take place on October 13, and any other changes required by the majority group.

RECOMMENDATIONS

The Committee is asked to agree that:

(1) The following Select Committee appointment be approved:

Healthier Communities Select Committee Councillor Sue Hordijenko

(2) Current vacancies on the Select Committees shown below be considered:

(a) Public Accounts
(b) Safer Stronger Communities

(3) Revisions to current Select Committee appointments, as may be required by any advised changes in political proportionality, be considered.

(4) Any other revisions to Select Committee appointments that may be required by the Majority Group be considered.

Contact Officer

For any further information on this report contact Kevin Flaherty on 0208 314 9327

Overview and Scrutiny Committee		
Title	Update on Devolution	
Contributor	Head of Corporate Policy and Governance	4
Class	Part 1 (open)	24 October 2016

1. Purpose

1.1 The Chair has requested an update on devolution to enable members to discuss any further work they feel may be necessary.

2. Background

2.1 In 2015 a working group was set up to consider Public Spending in Lewisham and one of the outcomes was a recognition of the need to track the progress of government commitments to devolution (the conclusion section of the report of the working group is appended to this report as Appendix 1).

2.2 The Overview and Scrutiny Committee has subsequently considered devolution more formally, taking evidence from the Chief Executive in October 2015, receiving a response from the Mayor and Cabinet, presented by the Head of Strategy, in March 2016 and finally receiving an update on the Health Devolution Pilot from the Executive Director for Community Services in July 2016.

2.3 This paper seeks to highlight the wide range of areas of business now the subject of greater devolution, and provides a basis for further deliberation and discussion at the Overview & Scrutiny Committee as to the implications for Scrutiny Committee work programmes.

3. Recommendations

3.1 The Committee is asked to:

- consider the content of this report
- take evidence from officers present at the meeting
- consider how it may wish Overview and Scrutiny to further consider issues relating to devolution

4. Update on Devolution

4.1 The Council supports devolution, recognising that fiscal devolution in particular will reduce local government's dependency on central government and allow it to deliver services more flexibly, generating the funds it needs to fulfil its priorities, itself. In February 2015 the Council agreed a motion expressing its support for the Core Cities' Modern Charter for Local Freedom[1]; and agreed to campaign for further devolution and greater localism and a fairer distribution of resources based on the restoration of needs-based central funding[2].

4.2 In 2015 the GLA outlined a London Proposition[3], supported by London Councils, which advocates London government working closely with central Government to agree a devolution package focussing on six key areas: employment and complex dependency; skills; business support; crime and justice; health; and housing.

4.3 Since then progress has been made in a number of areas. London Councils recently reported[4] on the following:

<u>Employment support</u>
The Spending Review announced the creation of a new Work and Health Programme that will launch from 2017 onwards. It contained a specific commitment that the Mayor of London and London boroughs will jointly commission employment support (outside the Jobcentre Plus regime), to assist the very long term unemployed and those with health conditions and disabilities to (re)-enter work.

<u>Skills</u>
The government has committed to the devolution of Adult Education Budget (AEB) to London by 2018/19 (this budget is for people aged 19+). In 2015, the government announced a programme of Area Reviews of post-16 education and training provision with a goal of delivering a rationalised Further Education sector, comprised of fewer, more financially sustainable institutions that are more responsive to local economic need. This process has been underway in London since March 2016 and represents a first step towards full devolution of AEB to the capital.

London agreed a sub-regional approach to its area reviews, West, Central, South and East. They will now run in parallel from September 2016, with the final Steering Group meeting taking place in either November or December.

Lewisham is part of the Central London European Social Fund region, and devolution of skills and employment support is being lead by GLA for London. London Councils has worked jointly with the GLA to work on further devolution to sub regions in London and for skills and employment. Lewisham is part of the Central London Sub region. Mayor Khan has been working with the

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[1] See: http://www.corecities.com/what-we-do/publications/modern-charter-local-freedom

[2] See: http://councilmeetings.lewisham.gov.uk/documents/s33998/Motion%203%20Proposed%20by%20the%20Mayor%20Seconded%20by%20Councillor%20Hall.pdf

[3] https://www.london.gov.uk/sites/default/files/a_new_agreement_for_london.pdf

[4] http://www.londoncouncils.gov.uk/members-area/member-briefings/leadership-devolution-and-democracy/progress-devolution-and-public

Government on taking forward London's ambitions for skills and employment to ensure that London continues to thrive post Brexit.

Health and Social Care

The London health and care devolution pilots, focused on integrating and improving services and outcomes, were announced in December 2015. The pilots are now well established and pan-London arrangements are in place to provide support, and to draw insights, to inform a strategic view on the implications for sustainable and high quality health and care across the whole of London.

In July 2016, Aileen Buckton updated the Committee on progress in Lewisham and advised that work on the “One Estate” pilot in Lewisham had begun and that there were examples of integration, and the development of multi-disciplinary teams, working well together. One such example was the Deptford Lounge, which had teams from different organisations in the same building sharing space and providing services to the public from a combined use building. Appendix 2 is the London Health and Care Collaboration Agreement that was provided to the Committee in July. Appendix 3 is the Expression of Interest Form for the One Public Estate pilot which was also provided to the Committee in July.

Financial Devolution – Business rates

The London Councils’ Leaders’ Committee received a report on 7 June 2016 and agreed a set of ‘Statement of Principles’ underpinning London’s approach to Business Rates.

These principles were subsequently agreed by the new Mayor of London and London Councils have written jointly to the Chancellor and the Secretary of State for Communities and Local Government, seeking the appointment of named senior civil servant to work with London’ s government on developing and implementing a business rates proposition for the capital.

The DCLG published the first consultation paper on 100 per cent retention in July. This consultation covers the approach to 100 per cent retention, including the approach to fair funding to be adopted, with a more detailed technical consultation expected in the autumn 2017. These consultations consider in outline the related responsibilities and services that might be delegated to local government in combination with the additional income the 100% business rates retention will bring.

The Public Accounts Select Committee scrutinised the Lewisham responses to these consultations in September-these are attached at Appendices 4-6 for members’ reference. Appendix 4 is the Lewisham response relating to the fair funding approach: Appendix 5 is the GLA/London Councils response: and Appendix 6 is the Cabinet Member for Resources response on behalf of the Council, to supplement the London view expressed in Appendix 5.

Financial Devolution - London Finance Commission
On 26 July 2016 the Mayor of London, Sadiq Khan, reconvened the London Finance Commission. This work will be led by Professor Tony Travers from LSE. The previous London Finance Commission in 2013 argued for fewer borrowing constraints and greater devolved tax powers for London. It found that only 7 per cent of tax paid by London residents and businesses is redistributed directly by locally elected bodies in contrast to other world cities. The commission is looking again at the arguments for London to retain other tax revenues, including stamp duty, a proportion of income tax, and the flexibility to raise new local taxes (e.g. 'tourism' tax).

Criminal Justice Devolution and Reform
The independent review of youth justice, led by Charlie Taylor which was commissioned by the Ministry of Justice, is expected to be published in the autumn. The report is expected to address the devolution and public service reform agenda

5. Discussion

5.1 Officers will be present at the meeting to answer questions in relation to their areas of responsibility, including: Aileen Buckton, Executive Director for Community Services and Ralph Wilkinson, Head of Public Services.

6. Further implications

6.1 There are no specific legal, financial or equalities implications as a result of this report.

For further information, please contact Salena Mulhere (Overview & Scrutiny Manager), on 020 8314 3380 or email salena.mulhere@lewisham.gov.uk

13. Conclusion

13.1 The work of other public sector organisations, alongside that of the Council, is critical to the wellbeing of local people; and in times of austerity it is important that the Council understands how resources are being deployed by other public organisations in the borough to help maximise overall benefit to the community. The Working Group's review into public spending in Lewisham has found that most areas of public spending in Lewisham have seen a drop in expenditure and that, for nearly all the organisations surveyed, recent annual reductions in funding in real terms are forecast to continue in future years. To some degree, inflation, cost pressures and changes to the way funding is delivered are masking the reductions. For example, in 2013 the Government changed the way local authorities were funded, removing the formula grant and rolling a number of different grants into the main allocation. The Working Group found that the rolling in of additional grants has distorted the Council's expenditure figures, meaning that the actual percentage reduction in spending was larger than the figures were suggesting.

13.2 Over time annual reductions compound to produce significant cumulative impacts on the community. It is therefore crucial that the public money still being spent in Lewisham is being spent in the most efficient way possible, to secure the best possible outcomes for those that live, work and learn in the borough. The Working Group therefore calls on the Council to work with its partners to ensure that there is proper public consultation on any upcoming ambulance, fire, police and NHS reconfigurations or changes; so the combined impact on Lewisham's residents can be fully assessed and taken into consideration by the Council when planning its own service changes.

13.3 All three emergency services are clearly under some degree of strain as they struggle to meet the ambitious savings targets they have been set and their performance is often below target in Lewisham. The Working Group has therefore asked the London Ambulance Service to investigate why their response time performance (Category A calls) is below that being achieved in neighbouring boroughs; and the Fire Brigade to investigate why their six minute target for getting a first appliance to an incident is not being met in three of the borough's wards. It is the Working Group's opinion that the recent Mayoral Direction requiring an appliance from Forest Hill Fire Station to not be returned, pending decisions on 2016/17 savings proposals, is not helping the situation. In terms of the Metropolitan Police Service, the Working Group notes with concern that the Metropolitan Police Service Commissioner has publically stated that the projected £800m of savings scheduled for the MPS over the next four years may put public safety at risk.The decline in numbers of Police Community Support Officers (PCSOs) and plans to potentially abolish PCSOs in safer neighbourhood teams are particularly worrying, and a detailed briefing has been urgently requested.

13.4 Many parts of the Further Education sector are suffering from the squeeze on public spending, with universities and further education colleges experiencing significant reductions to some of their funding. Although the Department for

Education has sought to protect funding for pupils up to the age of 16, post-16 funding has been excluded from the ringfence. The Working Group was particularly alarmed to discover that 16–19 education has suffered from a 14 per cent reduction in funding, in real terms, between 2010–11 and 2014–15."[46]

13.5 Although Goldsmiths University has, so far, benefitted from the change in the funding regime from Higher Education Funding Council for England (HEFCE) funding to loans, many other universities have experienced the opposite, with the effect of the change being highly variable between different institutions. The poor state of the finances of the borough's major FE provider, Lewisham Southwark College, is well documented, with turnover falling from almost £50m in 2012/13 when Lewisham College merged with Southwark College to £36m in 2014/15. Further reductions are anticipated as a result of government cuts to adult skills funding. The funding squeeze is further compounded by VAT which colleges, unlike schools and academies, are unable to recover. For Lewisham Southwark College it is estimated that VAT amounts to £1.5m per annum. The College is pushing very hard to improve its Ofsted rating from 4 (inadequate) but its financial situation is clearly a barrier to achieving this that will be difficult to overcome.

13.6 The housing crisis in the capital is well documented and Lewisham is not immune. Proposed legislative changes will exacerbate the situation when enacted and minimising the impact on vulnerable residents will be a key challenge for the Council and its partners.

13.7 Devolution is on the agenda in London and the Working Group notes the publication of the London Proposition[47] by London Councils and the GLA, which advocates London government working closely with central Government to agree a devolution package focussing on six key areas: employment and complex dependency; skills; business support; crime and justice; health; and housing. The Council supports devolution, recognising that fiscal devolution in particular will reduce local government's dependency on central government and allow it to deliver services more flexibly, generating the funds it needs to fulfil its priorities, itself. In the meantime the restoration of needs-based central funding would assist local government in meeting local priorities. In February 2015 the Council agreed a motion expressing its support for the Core Cities' Modern Charter for Local Freedom[48]; and agreed to campaign for further devolution and greater localism and a fairer distribution of resources based on the restoration of needs-based central funding[49]. However, the Working Group would like to be reassured that this is not used as a mechanism to implement more HM Treasury top sliced cuts.

[46] See: http://www.ifs.org.uk/uploads/publications/bns/BN168.pdf
[47] The London proposition: Devolution and public service reform, Congress of Leaders meeting, 14th July 2015
[48] See: http://www.corecities.com/what-we-do/publications/modern-charter-local-freedom
[49] See: http://councilmeetings.lewisham.gov.uk/documents/s33998/Motion%203%20Proposed%20by%20the%20Mayor%20Seconded%20by%20Councillor%20Hall.pdf

Recommendation: If proposals for devolution in London are accepted by the Government, the Mayor and Executive Members should share their proposals with the Overview and Scrutiny Committee as soon as possible to facilitate constructive scrutiny and the most effective constitutional arrangements.

13.8 On 25 November 2015 the Chancellor will set out departmental funding allocations and related changes to public service delivery for the next four years (2016/17 to 2019/20). The Working Group notes that while the extent of the funding cuts will not be known until the Chancellor's announcement, London boroughs are preparing for at least the same scale of cuts experienced over the last parliament and notes London Councils' submission to Government that advocates devolution as one of three broad solutions that might ease the burden on London.

London Councils' Spending Review submission

- London Councils' Spending Review submission was submitted on 4 September 2015.
- It proposes three broad solutions to meet the challenge of re-designing local public services in London so that they better match the needs of London and the UK:
  - ***Devolution and public service reform*** – supporting the London Proposition
  - ***Reform of the local government finance system*** – including delivering a four year local government finance settlement; agreeing a fixed definition of spending power with local government for the 2016/17 finance settlement; and giving local government greater autonomy over the setting of fees and charges.
  - ***Greater financial autonomy through fiscal devolution*** – including fully devolving business rates, exploring retention-sharing mechanisms for funding public services as part of the Spending Review process, and over the course of the parliament; and maintaining an open dialogue on a fully devolved London settlement.

13.9 Lewisham is the 17th most deprived local authority in the country and spending cuts that impact on the local authority; police, ambulance and fire services; higher education; and housing services have the potential to have a devastating cumulative impact on local people. It is therefore imperative that all organisations spending public money in Lewisham work together to ensure that limited and declining financial resources are used holistically and in the most efficient way possible, to ensure that the consequences of austerity are minimised wherever possible.

Recommendation: The formal partnership arrangements between the Mayor, Executive Members and Officers should be reviewed to ensure that they are robust enough to recognise the potential conflicts and solutions required to address the scale of the challenges that this review has identified.

14. Monitoring and ongoing scrutiny

14.1 Business Panel will consider the Council's overall scrutiny work programme in light of the review findings, with a view to considering whether further work should be carried out. If it feels that further work should be carried out, the relevant select committees will be asked to incorporate this work into their work programmes as a matter of priority.

Recommendation: Business Panel is asked to consider the overall scrutiny work programme in light of the review findings, with a view to considering whether further work should be carried out; and request that the relevant select committees incorporate this work into their work programmes as a matter of priority.

Transforming health and social care in Lewisham: Improving outcomes for our whole population

Since 2010, Lewisham Council and the Clinical Commissioning Group (formerly the Primary Care Trust) have been working with their provider partners to develop integrated services for the population of Lewisham to improve health and care outcomes and reduce inequalities.

Through this work the Council and the CCG have recognised the importance of seeking new ways of working and delivering new models of care, developing these in partnership with our health and care providers and with the public. As signatories to the London Health and Care Collaboration Agreement the Council and the CCG are committed to achieving the ten *Better Health for London* aspirations which are included in the Agreement.

The *Better Health for London* aspirations in the Agreement mirror the aims and objectives Lewisham's own Health and Care Partners want to achieve for our local population. Accordingly, in partnership with our main providers, Lewisham Council and CCG are keen to work with central government and national partners to test the opportunities offered by devolution to increase the scale and pace of health and care integration locally. As a devolution pilot we will continue to:

- Focus relentlessly on whole population health and wellbeing outcomes and efficiencies including cost containment over the next five years;
- Measuring what matters and reporting on progress to the relevant governing bodies;
- Using evidence when designing local programmes and embedding evaluation and learning into whole system model of care delivery and sharing this nationally;
- Establishing and communicating clear governance structures and processes for locally developed powers and providing clear accountability.

Our ambition

Lewisham Health and Care Partners have a common aim for health and care across the borough. Together, our aim is to deliver a viable and sustainable 'One Lewisham Health and Social Care System' to improve health and wellbeing outcomes and reduce inequalities. We want to achieve better health, better care, stronger communities within the borough and achieve better value for the money spent within health and social care locally - the Lewisham pound.

In order to achieve this, we are developing a whole system model which fully integrates physical and mental health and social care, delivered to the whole population. Our long history of joint commissioning and collaborative working means we are advanced on this journey. We know however that achieving our ambition requires a significant shift in the way that health and care within the borough is supported and delivered. We also recognise the benefits of integration with other local services, such as employment support, which we see as a real benefit of devolved working.

In agreeing to be a devolution pilot, we will continue to seek to work in new and different ways. As a pilot, we will work together with regulators, other parts of the NHS and Government to tackle barriers to integration, and increase the pace of delivering our whole system change.

Our journey so far

Our partnerships are strong and mature. For the last six years we have jointly commissioned services for both adults and children's health, social care and early intervention.

Lewisham Health and Care Partners have worked together to develop and deliver integrated services for the adult population since the integration of acute and community health services in 2010. The Council and the CCG have co-designed and jointly governed the integration of adult health and care, employing s75 arrangements and more recently the Better Care Fund. In partnership we have developed and delivered:

- integrated pathways across primary, secondary and community care,
- multi-disciplinary teams at neighbourhood level bringing together district nurses, community matrons, social work staff and therapists and aligned with community mental health staff
- a single point of access for district nursing and adult social care
- development of GP neighbourhood clusters, and
- the design and procurement of a virtual patient record.

For children and young people, we have a mature Children's Partnership arrangements with joint commissioning well embedded. Services across health and early intervention are aligned on a children's centre neighbourhood model – for example the co-location of children centre, health visiting and midwifery staff has been implemented ahead of the transfer of 0-5 commissioning responsibilities to LA's; similar co-location is in place for health and social care services for children with complex needs; and early intervention support for emotional wellbeing and mental health are being developed through Children's IAPT and Headstart.

In 2015, Lewisham restated its commitment to delivering a whole system model of care covering the whole population including children and young people.

Over the next two years we intend to expand and accelerate our programme

We are exploring options for expanding joint commissioning across the whole system (financial modelling, contracting and reimbursement models and governance and accountability models).

We are working together with staff and users to design our Neighbourhood Care Network, based on the footprints of the four current general practice neighbourhood federations, health and social care neighbourhood community teams, community mental health teams and Lewisham's children's centres. This is in line with our work collectively across south east London through *Our Healthier South East London (OHSEL).* We are exploring how best to integrate our highly effective employment support services for people with complex needs (including mental and physical ill health) with our health and social care systems.

We want to accelerate our work on integration over the next 2 years prioritising integration activity initially for adults over the age of sixty, those with severe mental health issues, those children with complex needs and on children's health and early intervention services, whilst ensuring activity across the system also supports the priorities set out in the OHSEL strategy.

We will continue to develop the local governance and leadership arrangements for the whole system model of care in Lewisham (building on the existing governance Boards for Adults integration and Children and Young People).

Challenges experienced in developing integrated health and social care, and our asks to support delivery of the pilot

Our experience since 2010 tells us that a number of key enablers are needed in order to deliver successful integration. Locally we have made inroads into these areas, however we have a number of specific asks in order to remove barriers to delivery.

Workforce: The establishment of the neighbourhood community teams is supported by a workforce development programme to remove the barriers to joint working and shared decision-making across organisations and professional groups.

Our asks:

- **Develop new workforce models and enhanced roles to support new models of care, including joint health and care roles working with Health Education England, Skills for Care and professional bodies amongst others.**

Estates: LHCPs have been working together to review the estate assets and understand the current pattern of use and lease/ownership arrangements. This has identified opportunities for using assets more efficiently across the whole system but a number of challenges to this have also been highlighted.

Our asks:

Working with NHS Property Services, CHP, London partners and sub-regional strategic estates boards to facilitate the release of primary care and hospital estates to support the development of new models of care and release relevant resources for transformation.

- **This needs to include flexibility around the financial treatment of assets and retention of capital receipts locally**
- **To develop local agreements around the shared use of estate.**

Aligned incentives and reimbursement, and funding structures: The partners recognise that financial incentives will need to be aligned to reinforce the change in behaviours and practices needed to deliver the whole system. Work has started around risk stratification and the initial financial modelling that will underpin the design of capitation in the next year to ensure that this is robust and flexible.

Our asks:

- **Specific focused expertise on request and tailored to local needs from NHS Improvement and NHS England to achieve flexibilities around tariffs and new payment models to support new models of care, beyond current flexibilities.**
- **Multi-year funding cycle across health and care that provides LHCPs with visibility and to enable upfront investments with a view to making longer-term savings or remain cost-neutral over the funding period.**
- **Transformation funding at an agreed level over a multi-year period from NHS England to support double running of services as implementation commences and any specialist support we may need to develop new commissioning capabilities.**
- **Transformation funding from NHS England to match resources committed locally. In particular we would ask for resources to accelerate the roll out of Connect Care, our virtual patient record system, across all parts of Lewisham Health and Care system to support the planning and delivery of care.**

Together, Lewisham Health and Care Partners will continue to work towards the delivery of One Lewisham Health and Social Care System. As partners we wish to explore, through this pilot, ways in which the freedoms and flexibilities offered by devolution could assist and enhance our work and help us reach our goal.

Signatories to the London Health and Care Collaboration Agreement and the Lewisham Health and Care Partners Pilot:

Sir Steve Bullock, Mayor of Lewisham
Lewisham Council

Dr Marc Rowland, Chair
Lewisham Clinical Commissioning Group

Lewisham Health and Care Partners Pilot supported by:

Tim Higginson, Chief Executive
Lewisham and Greenwich NHS Trust

Dr Matthew Patrick, Chief Executive
South London and Maudsley NHS Foundation Trust

One Public Estate – Expression of Interest Phase 4

London Borough of Lewisham One Public Estate Programme, OPE Phase 4 bid – Expression of interest (EOI)

Lead/organisation: London Borough of Lewisham

Sponsor: Barry Quirk, Chief Executive, London Borough of Lewisham

1.0 Introduction

This is a combined expression of interest led by London Borough of Lewisham (LBL) on behalf of; Lewisham CCG (CCG); Lewisham and Greenwich NHS Trust (LGT); South London and Maudsley NHS Trust (SLaM); the Lewisham GP Federation; and Community Health Partnerships (CHP). The partners are fully committed in principle to working collaboratively to deliver the work strands described here within.

LBL, together with stakeholders, are either leading on or involved with 3 key property-focused initiatives with governance arrangements as follows:

- Lewisham Regeneration Initiatives – with the aim of identifying and bringing forward opportunities and strategic sites to support place-making and growth in terms of housing and employment, alongside the service and financial benefits which arise through better use of public assets.
- Adult Integration Programme – programme which aims to achieve greater integration of adult social care and health services in order to improve access to, and equality of health across the Borough of Lewisham, and encourage out-of-hospital care and greater independence.
- Lewisham CCG – Strategic Estate Planning in Lewisham delivering new models of care with a focus on collaboration between key organisations to provide better located and more efficiently utilised facilities, that manages and can better cope with demographic change and population growth across the Borough.

Following various public sector stakeholder events, it has become clear that all three projects have OPE benefits and synergies and there are obvious opportunities, for all parties to pool property assets rather than work in isolation.

The key common drivers for all of the above programmes are integrated health and social care, regeneration, place-making and new housing delivery, collaboration, co-location and shared use of assets and improved health outcomes from the provision of better pathways and facilities. This complements the work already undertaken by the Local Enterprise Partnership (LEP).

If the expression of interest is successful, the stakeholders will bring the above groups together to form an OPE Partnership Board who will commit to submitting a final services and assets delivery plan for 29th July 2016.

The public sector property portfolio in Lewisham has been mapped. This data is used regularly by stakeholders as evidenced by various workshops undertaken by the CCG, LGT, CHP, LBL, and SLaM, and has been used as a key source of data for this Phase 4 EOI.

One Public Estate – Expression of Interest Phase 4

The partners have agreed to focus on key priority outcomes for the programme such as sharing resources, flexible working opportunities, and implementation of joint public sector projects. In addition, the delivery of housing and jobs are key. Financially the benefits of realising capital receipts and/or revenue generating models will be developed in order to strategically create overall public sector revenue savings.

1.1 The stakeholders have adopted a number of key principles:

- Stakeholders are willing to engage and collaborate honestly, and respect the 'system' costs and benefits. They will be flexible in terms of priorities, and property transactions undertaken between parties.
- No stakeholder is detrimentally disadvantaged in terms of cost and resources.
- Not all benefits will be in monetary terms, or equally shared.
- Decision making will not compromise the operational efficiencies and individual objectives of partners.

1.2. LBL are also stakeholders, together with four other local authorities, in a separate bid being led by London Borough of Bexley in respect of a piece of work around depot strategy. The two bids are separate both in terms of the stakeholders involved and types of work streams proposed.

2.0 Phase 4 of the London Borough of Lewisham One Public Estate - Programme

2.1 The three programmes need central support to bring them together to transform services as follows:

OPE Regeneration Initiatives
The Lewisham Regeneration Strategy – People, Prosperity and Places sets out the Council's vision for the regeneration of Lewisham until 2020, and outlines the new and emerging opportunities from which the residents, current and new, will benefit. This sets out:

- The links to the Council's wider strategic aims;
- The main development corridor and links that are the building blocks for regeneration both large and small across the borough;
- The ways in which the Council is working to drive growth and transformation of the borough, particularly through the use of its own assets.

Lewisham's population is due to increase from 286,000 to 318,000 by 2021, and 352,000 by 2031. The Council's LDF Core Strategy (until 2026) sets out the key growth areas encompassing Deptford, New Cross and Lewisham and Catford Town Centres, and during this period provision is being made for over 17,000 new homes as well as new retail and leisure space in the borough's highest profile town centres – Lewisham and Catford. The Council is continuing to develop its strategic vision for the growth corridor connecting Lewisham with Catford, with further significant regeneration to come on top of what has already been delivered.

One Public Estate – Expression of Interest Phase 4

Under the OPE initiative it is likely that the Council and its partners will seek to identify strategic sites which could deliver significantly both in general regeneration terms and on other objectives set out in this document, but with a focus on delivering housing units and a more sustainable commercial environment, and increased employment opportunities.

The partners are focusing on a number of key areas and will include further detail at the next submission.

Collaboration/Integration – Adult Integration
Lewisham has a well-established adult social care (ASC) and health integration programme. It aims to achieve:

- Better health – by providing access to healthier life choices and styles
- Better care – through providing personalised and co-ordinated health and social care services which promote living independently and in a home of choice whenever possible
- Strong communities – sustaining resilient and caring communities through support of community organisations, volunteers, families and carers to care for the most vulnerable and one another

The programme is governed through a partnership board which includes LBL, including Public Health, LGT, SLaM, Lewisham CCG and the Federation of General Practitioners.

Lewisham GP's are formally federated and work both borough wide and in four designated neighbourhoods. Virtual multi-disciplinary community-based teams of Social Workers, Therapists, District Nurses and Physiotherapists are aligned to each neighbourhood.

The partnership between these teams and GP's is now embedded in and shaping an expanding network of primary care services and local community opportunities to help residents retain their health and independence and only be admitted to hospital when essential.

Lewisham CCG – Strategic Estate Planning
One of the principle threads of the Strategic Estate Planning is to identify and develop Local Care Networks across the Borough, and a more financially sustainable model would support successful completion of this work. The development of LCNs will be the mechanism by which Lewisham responds to the need to change how services are organised and delivered locally. The services available will be proactive, accessible, coordinated and provide continuity; with a flexible, holistic approach to ensure every contact counts. This will be primary care delivered to geographically coherent populations, at scale, whilst still encouraging self-reliance. In Lewisham there are four emerging LCNs; North Lewisham, Central Lewisham, South East Lewisham, and South West Lewisham. There are 4 GP federations, where all practices are members.

2.2 Scope of each project

The biggest opportunities for Lewisham will materialise if all the stakeholders work together. This collaboration will consequently unlock new homes, capital, revenue savings and jobs. It will be prudent to merge the following initiatives into one programme, under the OPE and the central support will enable the key stakeholders to form a formal partnership that will unlock complex and politically sensitive site opportunities.

(i) OPE Regeneration Initiatives	(ii) Collaboration/Integration – Adult Integration	(iii) Lewisham CCG – Strategic Estate Planning
• This work will focus on area specific sites with a view to unlocking and bringing delivery forward for regeneration and redevelopment. This will seek to identify opportunities to deliver new homes, employment, fit for purpose operational assets, financial benefits and other key place-making objectives. • Through greater integration and collaborative working between partners, it will also seek to deliver opportunities for co-location (both front line and back office), shared use of assets and integrated service provision. For example the CCG are already negotiating to take occupation of part of the Local Authority HQ.	The OPE programme would allow purposely designed or renovated spaces in each 'neighbourhood' to support this programme through: • Priority space for expansion of emergency community based care services, avoiding unnecessary hospital admission; • Space to facilitate new models of hospital discharge and care at home with innovative use of modern technology and aids; • Provision of four 'neighbourhood touch down spaces' for professionals and volunteers/carers alike, close to the neighbourhood networks and resources and to where the residents live. • To support preventative, whole population primary care service development; and • Adapted space for Community engagement and initiatives where they are most needed e.g. Children's Centres.	• This project will initiate the confirmation of the Local Care Networks in Lewisham. LCNs are not intended to be specific buildings, however it is inevitable that hubs (physical assets) will be needed for services and staff. • Priority will be given to reviewing the options for location (using existing public sector land or buildings), physical co-location, better utilisation, dealing with unfit for purpose accommodation in the Borough, maximising the use of existing purpose built facilities, enabling out-of-hospital care, and ensuring that primary and community care infrastructure provide, for example but not exclusively; adequate IT and development, 7-day-access. • An early win would be Waldron Health Centre, building on the work already done to date to achieve colocation of health and LA services, more efficient use the building, and a better understanding of how it will fit within an LCN, and neighbourhood model.

2.3 Partners and governance

Each project is linked back to an existing programme/initiative/strategy, led by a senior officer from the relevant organisation namely:

(i) **Lewisham CCG – Strategic Estate Planning** – Martin Wilkinson, Chief Officer, NHS Lewisham CCG
(ii) **Collaboration/Integration – Adult Integration** – Tim Higginson, Chief Executive, Lewisham and Greenwich NHS Trust, (and SRO for Estates Stream)
(iii) **OPE Regeneration Initiatives** – Barry Quirk, Chief Executive, London Borough of Lewisham

If the EOI is successful, a Lewisham OPE partnership will be set up, incorporating all of the above workstreams, with an appropriate governance structure.

Stakeholders identified for each project:

(i) OPE Regeneration Initiatives	(ii) Collaboration/integration – Adult Integration	(iii) Lewisham CCG – Strategic Estate Planning
London Borough of Lewisham Lewisham and Greenwich NHS Trust South London and Maudsley NHS Trust NHS Trust	London Borough of Lewisham Lewisham and Greenwich NHS Trust Lewisham CCG South London and Maudsley NHS Trust GP Federations	London Borough of Lewisham Lewisham and Greenwich NHS Trust Lewisham CCG South London and Maudsley NHS Trust GP Federations Community Health Partnerships (CHP)

2.4 Financial

Funding will be critical in order to progress and set up project teams to deliver these three initiatives. Without further support and resource these projects will take significantly longer to deliver and run the risk of not proceeding. Workstreams will be required such as; feasibility studies, needs assessments, data analysis, site appraisals, and internal and external consultation. The total bid across all three projects amounts to £500,000.

The following brings together the three projects, showing funding requirements and phased activity.

Workstream's required to achieve the three key property-focused initiatives; - OPE Regeneration Initiatives - Collaboration/integration – Adult Integration - Lewisham CCG – Strategic Estate Planning
Funding required: £500,000
• **The workstreams have already developed various site opportunities across Lewisham, however specific surplus sites cannot be declared, or agreed, until the strategy for the LCNs has been completed.** • Undertake stakeholder engagement and needs analysis for the LCNs. Appraise potential sites / locations for LCN and engagement. Workshop arranged in May 2016. • Identify and provide 'neighbourhood touchdown spaces', with potential link to LCN and hub model. • Feasibility/option appraisals to confirm core public sector assets that can deliver the four OPE core objectives. • Agree surplus land with SLaM, LA, LGT, the GP Federations, and CHP. • Promote community care and out-of-hospital initiatives through development and utilisation of IT innovations. • Agree physical co-location opportunities for administrative and HQ functions, and community engagement initiatives, across the public sector. • Develop models for generating capital receipts or revenue generating options. • Agree strategy with all stakeholders. • Declare surplus land and market. • Deliver full programme, i.e. site decant, architectural surveys, legal support, planning appraisals etc. • Confirm housing numbers to be delivered. • Generate either capital receipts or revenue streams.

2.5 Deliverable/outputs/benefits

Deliverables, outputs ad benefits to be delivered by the three key property-focused initiatives; - OPE Regeneration Initiatives - Collaboration/integration – Adult Integration - Lewisham CCG – Strategic Estate Planning
Deliverables & Outputs • This exercise will go some way to contributing to the Councils target of a minimum of 17,000 new homes. • A programme for site disposal and related capital and revenue generating benefits. We will have a clear service provision for LCNs that define location, size, and occupants.

- Development of facilities and technology, and greater integration of services within the four designated neighbourhoods that will support service drivers.

Benefits

- A plan for surplus estate, consequently delivering housing, improved healthcare facilities, capital receipts, revenue savings and jobs.
- Overall running costs will reduce for the public sector estate in Lewisham.
- A fully utilised estate, fit-for-purpose estate, in the right location and providing the right services.
- Public sector integration and communication, including administrative and clinical accommodation.

2.6 Project plan

Each project has identified a high level project plan.

Project plan for proposed workstreams
0-3 months - Feasibility studies to deliver LCNs and neighbourhood touchdown spaces (perhaps in the same place). - Differentiate above initiatives with wider regeneration projects, and confirm collaboration. Focus on complementary opportunities. - Continued stakeholder consultation - Review GP Practice space utilisation results and feed into feasibility work - Confirm potential surplus sites by 29th July 2016, in time for the submission of the final services and assets delivery plan. **3-6 months** - Identify potential funding options for surplus assets, and sharing opportunities. **6-18 months** - Undertake pre-application meetings where appropriate and release surplus land and market - Set up full programme for implementation and delivery for above workstreams. - Public and staff consultation **18 months+** - Capital receipt or revenue generating initiatives confirmed/generated.

3.0 CONCLUSION

A huge amount of work has already been undertaken. Collaboration is underway, however needs to be continued and developed to extract specific opportunities.

There will be huge benefits to the Borough of Lewisham, by bringing all three workstreams together under one programme. OPE funding will enable these workstreams to operate in parallel to maximise emerging opportunities and bring forward delivery timescales.

LBL are excited about new opportunities to create a far more unified One Public Service in Lewisham that delivers growth in terms of housing and jobs. This will benefit to patients and residents.

Savings to the public purse, and an improved economy, will result from this project.

Improvement to patient service delivery and consequential benefits to the acute sites through improved community care will be inevitable.

The practical support from the Local Government Association and Government Property Unit will be essential to unlock barriers, sharing good practice, providing bespoke expert analysis, and assist in developing economic benefit cases for action.

Appendix 1

Capital Receipts (or generate revenue streams)	A number of public sector assets could potentially be surplus to requirements. However the specific sites cannot be confirmed until the LCN strategy has been approved and more work has been carried out on other projects to give a more accurate estimate of the full scale of opportunity. The application for OPE monies will enable the partners to do this.
Reduced Running Costs	Similarly as above, further work is required to determine the Reduced Running Costs by July 29th.
Jobs Created (FTE)	As above.
New Homes	As above.

Lewisham response to DCLG consultation Business Rates Reform: Fair Funding Review: Call for evidence on Needs and Redistribution

Summary of key questions and Lewisham responses

Question 1: What is your view on the balance between simple and complex funding formulae?

We would, of course, wish to see a simple formula able to be understood by all but ultimately we need the right formula. Since many of the special grants have been rolled into Revenue Support Grant (RSG), there needs to be a nuanced way of taking need into account. The key cost drivers in Lewisham are childrens' social care, adult social care – both for the very elderly but also those with leaning and physical disability, and the consequences of London's housing crisis – homelessness and temporary accommodation costs. Other consequences of population increase and changing demography also impact differentially (e.g. no recourse to public funds is a major cost driver in Lewisham). This need to account for multiple dimensions and factors will require increased complexity in the funding formulae.

Question 2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

For many services, a simple population based formula with corrections for deprivation and area costs will be sufficient. Consideration does need to be made on the realism of existing area cost adjustments. With the rate of rising population in London need should be should be revised regularly. However, the more significant costs in London local government are not associated with universal services but are focused on social care and temporary accommodation for homeless households. These should be dealt with separately and a model developed to enable the prediction of such need based upon; demography, socio-economic conditions and deprivation, and population change.

Question 3: Should expenditure based regression continue to be used to assess councils' funding needs?

Any new needs formula which significantly changes the distribution of funding will cause problems for local government. After six years of cuts to spending the ability of local authorities to respond flexibly to further reductions (or even increases) is reduced. This is why basing future funding on past spending is important. It may well be that differences in expenditure between authorities do not wholly reflect need, but they will reflect historic choices and decisions made on priorities or the shape of the provider marker and economy, and as such are difficult to unpick. Need should of course shape funding but not accounting for existing spending to reflect real variation in local costs will cause significant disruption.

Question 4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?

The key cost drivers in Lewisham are the consequence of socio-economic need and a model may be able to be developed that uses key indicators of need as inputs. Broad brush use of the IMD data is not sufficient in modelling the needs in adults social care and childrens services, or of homelessness.

For childrens' services we would contend that, as a reflection of need, the following indicators could be useful:

- Demography – numbers of children and population predictions;
- Free School Meal (FSM);
- Disability Living Allowance (DLA);
- English as an additional language (EAL);
- Children in poor health, and with disabilities; and
- Income deprivation affecting children index IDACI.

As well as consideration of the historical numbers and trends in the numbers of children in social care, with high needs and with disability.

For adult social care similar indicators (such as the Better Care Fund (BCF) indicators for 1) the % of people who remain at home 91 days post discharge; 2) Admissions to Residential and Nursing Care; 3) delayed transfers of care by number of days; or the SALT return for number of adults with learning disability supported by adult social care) would be useful. As well as consideration of:

- Demographics – particularly numbers of older people aged 80+;
- Deprivation (e.g. correlation between numbers of young people with an LD who need support with free school meals numbers, lower level of LA support needed in areas where more people can fund own care);
- Health – e.g. numbers with a limiting long-term illness;
- Disability (benefits numbers as a proxy);
- Numbers (proportion) of lone parent families;
- Transience of population; and
- The availability and the nature of supported housing services including Extra-Care Housing for Older People.

Homelessness places huge financial burdens on local authorities, and the inclusion of indicators of housing stress should be factored in including numbers of people in temporary accommodation, waiting for accommodation and house price: earnings ratio are important.

Question 5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

The formula must contain elements of expenditure based regression for most universal services, and some form of multi-level modelling for the high need / high cost areas.

The formula should contain detailed and long-term past expenditure trends for universal services, and a comprehensive range of social and economic drivers for high need/ high cost areas. The modelling should include social and economic statistics produced for:

- the Public Health Outcomes Framework Indicators maintained by Public Health England at http://www.phoutcomes.info/public-health-outcomes-framework#gid/1000049;
- the Local Authority Interactive Tool database maintained by the Department of Education at https://www.gov.uk/government/publications/local-authority-interactive-tool-lait#history;

- the 2015 Indices of Multiple Deprivation maintained by the Department of Communities and Local Government at https://www.gov.uk/government/statistics/english-indices-of-deprivation-2015;
- Sub-National Population Projections, Mid-Year Population Estimates and migration and other relevant demographic statistics published by the Office of National Statistics at sites including https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/compendium/subnationalpopulationprojectionssupplementaryanalysis/2014basedprojections; and,
- official labour market statistics published by the Office of National Statistics at https://www.nomisweb.co.uk/.

Question 6: What other considerations should we keep in mind when measuring the relative need of authorities?

We should consider the ability of the authority to generate other sources of income. For some authorities in prosperous areas with large economies, there are likely to be opportunities open to the council for income generation (e.g. advertising on the highways and elsewhere). For other authorities there will be little opportunity to generate additional external income.

However, the level of the annual levy on a band D property for council tax should not be a consideration as this is a political consideration. If an area has chosen to have low council tax this should not be taken into the calculation of need.

Question 7: What is your view on how we should take into account the growth in local taxes since 2013-14?

There is danger of muddling two or more policy objectives here. If the policy objective of 100% business rates retention is purely to enable devolution then business rates could be seen as merely another tax whose source is irrelevant. In Lewisham, we would argue about the logic of the case and the implications of the policy - see Annex One where our Chief Executive argues against the logic of the case for social care being funded by a property tax.

If we make the case about retention being there to incentivise economic growth and the business base in a local area, the degree of retention is important locally. A policy objective of using business rates to promote economic growth through ensuring the local authorities focus on business development, economic development and planning will require enough of a local incentive to generate this attention.

There is always a careful balance to be achieved between the need to incentivise local authorities to do 'the right thing' and the need to ensure that there is enough money in the system to ensure fair and equitable distribution and fair funding.

Some authorities will find it much easier to build on their existing business base; some authorities, including Lewisham, may find their business base being eroded by permitted development rights outside their control; some more deprived areas with very weak regional economies will find building a business base incredibly difficult. However, we would argue strongly that there is a need for authorities like Lewisham with a small business base to be incentivised to seek to build this base.

An increase in council tax base might be seen to be a compensation for the increase in population in an area. However, population increase and council tax base do not correlate. In Lewisham for instance, over 30% of the increase in population results from an increased birth-rate in some of our more deprived communities. This is a population increase without an increasing council tax base. It would not be sensible to include this a part of the resource available to councils as; firstly, the council tax base does not correlate with population increase; and secondly, the annual levy figure is a political choice.

National policy must always seek a fair funding solution and lean towards equalisation. We believe that at a regional level, pooling across city regions may be able to better respond to local incentivisation. Neither an increase in council tax base, nor the increase in business rates should be part of the assessment.

Question 8: Should we allow step-changes in local authorities' funding following the new needs assessment?

Unless the funding for needs is undertaken regularly and frequently or when the model is being reset, there is a risk of large changes from one review to the next emerge. This does not make the change wrong but with local government resources so constrained any changes in funding should be implemented in a transitioned way, stepped or otherwise.

Question 9: If not, what are your views on how we should transition to the new distribution of funding?

See answer to Q8.

Question 10: What are your views on a local government finance system that assessed need and distributed funding at a larger geographical area than the current system – for example, at the Combined Authority level?

We have no views on this as a London Borough. However, subject to the necessary governance being resolved and unanimously agreed in advance, a wider geographic approach as part of a devolution deal could be appropriate.

Question 11: How should we decide the composition of these areas if we were to introduce such a system?

We have no views on this as a London Borough other than to note that we support the London devolution proposal in response to business rate consultation running in parallel to this consultation.

Question 12: What other considerations would we need to keep in mind if we were to introduce such a system?

See answer to Q10.

Question 13: What behaviours should the reformed local government finance system incentivise?

The incentive to grow business rates is clear, and simple to understand. Determining what is meant by efficiency is not simple or easy to understand, nor do easy measures exist that could be used to measure progress of compliance. The incentives for collaboration will also be difficult to judge, and assume that there are always benefits. Perverse consequences for both incentives could be very difficult to identify, manage and avoid. If Government wants to encourage collaboration and sharing, they should bite the bullet and use policy incentives to do so and fund transformation and change.

London has proposed a pooled mechanism to encourage and incentivise transformation, which would be preferable to nationally imposed blunt rules.

Question 14: How can we build these incentives into the assessment of councils' funding needs?

This should be done at a devolved level.

Enclosed – Annex 1

Lewisham response to DCLG consultation Business Rates Reform: Fair Funding Review: Call for evidence on Needs and Redistribution

Annex One:

There is no logical reason to pay for social care with local property taxes
Barry Quirk
Local Government Chronicle
16 October 2015

The strategy to localise business rates reflects the government's drive to connect local government better to its local economy. I support this drive. Too many councils in England have adopted a parochial approach to their role and have conducted themselves in isolation from the wider economies in which they are situated.

More generally, local government fails to achieve its broader purposes if it focuses only on securing cost-effective public services. Councils must also focus on improving the productive effectiveness of their local economy. A focus on services will boost overall quality of life locally. A complementary focus on the wider economy will help to boost the quality of life-chances locally. That is why linking councils' spend directly to the local revenues raised from council tax and business rates is a laudable aim.

The trouble with laudable aims is that they often crash on the rocks of harsh realities. In this instance the rocks are 1) the economic realities of local economies and 2) local government's functional service responsibilities.

The abolition of the uniform business rate multiplier, used to calculate the rates businesses should pay based on their value, is welcome. It will allow councils to offer discounts or charge more for investments, and to address the weaknesses in their economies.
This builds on existing practice. London has 37 business improvement districts that recycle small additions to local business income so as to support investment that will improve the market conditions for local businesses. Large businesses in London with a rateable value of over £55,000, or who pay more than £28,000 per year, pay an additional 2p in the £1 to finance £4.1bn of the £15.9bn being spent on the Crossrail development.

Over the next five years it is crucial that businesses contribute to their local economies through more focused business rates. That's because the Treasury anticipates that aggregate corporation tax will actually reduce over the period to just 1.9% of GDP. Unlike corporation tax, business rates are difficult to avoid paying.
Here's an example. Just off Oxford Street in London, a new development is underway in Rathbone Square. The 420,000ft² development comprises 142 flats, 24,000ft² of retail space and 230,000ft² of office space, all of the latter of which has been taken for the new London HQ of Facebook.

This will cost Facebook £16.9m per year in rent and they will have to pay Westminster City Council about £4m a year in business rates. The company paid less than £5,000 to the Treasury in corporation tax last year on annual sales of £105m. In short, it is easier to collect taxes from businesses on their use of property, than it is on their reported profitability.

The other harsh reality is that England contains incredible variety in its economic geography. Middlesbrough has a similar sized population to St Albans: about 140,000. Middlesbrough collects £42m in business rates; St Albans collects £63m. Middlesbrough is a unitary, in one of the ten most deprived local authority areas in England; St Albans is a district, in one of the ten least deprived areas. It is right that they should each focus on supporting business growth and improving their local economies but how can their vastly different service responsibilities be funded in the same way?

The issue as to whether local government should be funded entirely from property taxes was discussed at the LGC Summit. Clay Pearson, a city manager from Texas, explained how his council got none of its revenues from state or federal government. However, only 21% of its revenues come from property taxes, because local government in the US has many and varied sources of revenue. These varied revenue streams enable US local government to be resilient to the inevitable external economic shocks. In virtually every other advanced nation, social care services are not the responsibility of local government. The quality standards and levels of assurance required to deliver social care requires reliability in service provision and predictability of financing. There is no intellectually respectable argument for financing child protection and adult social care from localised property taxes and yet that is where we are headed.

This is a consequence of a series of unconnected decisions. Whitehall now seems alert to this issue. There is a clear need to take the fiscal devolution agenda forward to boost the productive potential of England’s second-tier cities and the large counties, but there is also a critical need to produce stable financing for acute services to those small numbers of people (about 2,000 in every population of 100,000) that require society’s support and intensive help.

Barry Quirk, chief executive, Lewisham LBC

END

LONDON COUNCILS GREATERLONDONAUTHORITY

"Self-sufficient local government: 100% Business Rates Retention"
A joint consultation response by London Councils and the Greater London Authority

About this response

1. This is a joint response on behalf of London Councils (representing the 32 boroughs and the City of London) and the Greater London Authority (GLA). It has been agreed by the 33 Leaders of London's local authorities and the Mayor of London.

2. It firstly sets out a joint position on how we believe the reforms should be implemented in London in order to benefit not just the capital but the local government sector – and the UK economy - as a whole. This develops a set of key principles that were agreed by London Councils Leaders' Committee and the Mayor of London in June, and formally submitted to the Chancellor of the Exchequer and the Secretary of State for Communities and Local Government on 1st July.

3. **Appendix 1** then includes detailed responses to the consultation questions.

Introduction

4. Since the Chancellor's announcement that local government would retain 100 per cent of business rates by 2020 in October 2015, London Government has been working collaboratively to develop a strategic pan-London response to the reforms. We welcome the consultation on the reforms to the business rates retention system required in order to make local government "self-sufficient" by 2020, and its commitment to "explore with London [along with Greater Manchester and Liverpool combined authorities] options for moving to 100% business rates retention ahead of the full roll-out of the business rate reforms."

5. London Government has long held the view that it should be granted control of a wide range of local taxes, including business rates. The re-convened London Finance Commission (reporting in autumn 2016) is likely to recommend greater fiscal devolution and tax raising powers for London. London's continued economic growth is vital to the country as a whole; maintaining that growth during a period of uncertainty in which the UK will leave the EU – and managing a rapid increase in population – will be a huge challenge. Devolving business rates (and other revenue streams) will help build a joint, city-wide approach that can incentivise, prioritise and manage the public services and infrastructure investment London needs to continue its contribution to the public life and economic success of the UK.

6. However, there are two major threats to the Government's policy objective of promoting growth and self-sufficiency: 1) the issue of business rates appeals - which is now widely recognised across the sector; and 2) the fact that there is an overall "fixed quantum" of business rates – which, as a result of its interaction with the revaluation process, distorts incentives and undermines the economic credibility of the tax. A devolved approach

would give London Government the opportunity to address both issues – even without the power to increase the rates bills for individual taxpayers.

7. Furthermore, London's population will continue to grow much more rapidly than that of the rest of the country. This brings opportunities and challenges not only in the successful management of the capital's economic growth, but also in securing a sustainable financial future for its public services. In considering the future assessment of relative needs and the services to be transferred, it will be essential that any London deal secures genuinely devolved control over a level of resources sufficient to manage the financial risks involved.

8. In June 2016, London Government collectively agreed a set of principles that would inform the design of each of the key elements of a devolved business rates retention system for the capital. This response expands on those principles and sets out a clear vision for how a London business rates retention system would operate.

Issues with the current local government finance system

9. London Government believes there are issues with the current local government finance system that must be addressed if local government is to be put on a sustainable financial footing over the long term, in a world where business rates and council tax will fund virtually all local government services from 2020. The current funding system breeds uncertainty; is too complex and lacks transparency; and is too centralised with a lack of local control.

Uncertainty

10. London Government believes the current local government finance system does not provide local authorities with the stability needed to budget effectively over the medium to long term. We welcome the 4 year settlement which will give some degree of certainty over one element of local government funding - Revenue Support Grant (RSG) - until 2019-20, however uncertainty exists over other funding streams. Ring-fenced grants often have their own complex funding formulae that are frequently recalculated. The extent to which local authorities can benefit from Council Tax varies widely because of historic decisions and out of date valuations. And, most importantly, the level of retained business rates varies across the country and bears little correlation with economic growth. The four year settlement sets out targets for retained business rates – but there is no guarantee local authorities will meet them, in large part due to the impact of business rates appeals, and the failure of the current retention system to incentivise growth.

11. The uncertainty caused by business rates appeals is the biggest issue government must resolve with the current retention scheme. It disproportionately affects London boroughs, which receive more appeals, and where appeals are generally of higher value and take longer to clear than elsewhere. The aggregate provision for appeals across all 33 London billing authorities as at 31 March 2016 exceeds £925 million. The current backlog of appeals on the 2010 rating list in London is proportionately much higher than

the rest of the country and progress on reducing this backlog also appears to have been much slower in the capital particularly in central London.

12. The unpredictability of appeals meant the Government underestimated the call on the safety net in the first three years of the retention system. As a consequence, an additional £195 million was top-sliced nationally from RSG: funding that would otherwise have benefited all authorities. The GLA incurred a deficit against its baseline of £120 million in the first two years of the scheme due to the impact of provisions for appeals but was ineligible for a safety net payment.

13. More broadly, the 50 per cent scheme has failed to incentivise growth sufficiently. Analysis of publicly available data on business rates confirms this – with negative growth in the first three years of the system despite strong economic growth across London. Aside from the uncertainty caused by appeals, the growth incentive is weak for several reasons:
    - the 50 per cent growth retention rate is too low (we believe should have been 100 per cent from outset);
    - there is a levy on disproportionate growth for tariff authorities;
    - the definition of growth only applies to physical rather than revaluation growth – this makes it difficult for local authorities in built-up areas, like London, to benefit financially from the current system any additional physical growth often requires the demolition of existing buildings first; and
    - growth is lost when the system is reset, which acts as a disincentive for developments as the “cliff edge” of the reset draws closer.

<u>Transparency and complexity</u>

14. Uncertainty is compounded by the second main issue with the local government finance system: its sheer complexity, which leads to a real (and perceived) lack of transparency.

15. This begins with the Spending Review process whereby HM Treasury agrees departmental spending allocations behind closed doors, and DCLG is left with a Departmental Expenditure Limit from which RSG is calculated. Existing funding burdens, such as pressures caused by people with No Recourse to Public Funds or those claiming Council Tax Support, are reportedly taken into account when agreeing the overall funding control total for the DCLG (and thereby the overall level of RSG), however, it is not clear how.

16. The needs assessment which drove the original funding baselines in the business rates retention system, and to a large extent the distribution of RSG, is incredibly complex and opaque making the original funding distribution at the start of the current retention system difficult to understand. By seeking to account for differences between such a diverse range of organisations, with budgets ranging from £2 million to well over £1 billion, the current needs assessment has evolved to be unavoidably complex. This has resulted in different parts of the sector being forced into competition to argue for the factors that matter most to their areas.

17. Continual tweaking of the methodology for calculating RSG has meant that changes to the distribution of funding since 2013-14 have often been difficult to understand. “Rolling in” certain grants and responsibilities (such as Council Tax Support and Local Welfare Provision), while keeping others as visible lines within RSG, has further added to the confusion, impeding the ability of local authorities to understand whether there is a fair level of funding for the services they are required to deliver. The confusion over the calculation of the “transition grant” in the 2016-17 LGF Settlement is the latest example of how this lack of transparency permits central manipulation without appropriate accountability.

18. Finally, the business rates retention scheme architecture is too complex. The scheme was supposed to be simpler than the previous system of formula grant and specific grants. Due to the fact that it is a partial retention system involving different shares for different tiers of government, there are complex accounting arrangements and there have been a growing number of reliefs with differing qualification criteria often requiring compensation via section 31 grant the system has become increasingly opaque and difficult to understand even for Finance professionals. In addition because there is an overly complex way of forecasting and accounting for appeals, this has resulted in a scheme in which it is difficult to assess accurately whether there has been growth against a baseline or not, let alone one in which business rates growth follows wider economic growth.

Lack of local control

19. The third main issue with the current system of local government finance is that there is too much central control by government. London Government believes that decisions over funding of, and expenditure on, local public services should be taken as close as possible to the tiers of government delivering those services. The current finance system remains overly-centralised. Compared with other developed countries, the UK is an outlier in the level of tax raised and spent locally[1].

20. Ring-fencing certain government departments, while others bear greater proportionate cuts, has an impact in funding available to local authorities. This not only impacts on the overall level of core funding, but affects the way in which local government is able to use its financial resources. Despite government attempts to rationalise grant funding streams following the 2010 Spending Review, there has been a gradual increase in the number of ring-fenced and targeted grants. These often have their own complex formulae, such as the Public Health Grant, which have their own bureaucratic and time-consuming machinery to administer.

21. In addition, there are many services that local government has a statutory duty to deliver, but is required to charge for at a level determined by central government rather than local councillors. The result is that there are a number of services which leave councils with an overall net deficit each year. We believe the government should reduce the number of nationally set charges; make locally determined charges the norm; allow local authorities to recover full costs, even for charges set at the national level; and

[1] http://www.publications.parliament.uk/pa/cm201415/cmselect/cmcomloc/503/50305.htm

remove central controls on planning application fees, building control charges, land searches and licencing fees.

22. Finally, there has been too much central control over council tax which has restricted long term sustainable financial planning. Apart from business rate supplements which are also levied by local authorities, it is the only tax that requires a referendum to increase tax rates above a threshold and reinforces central control over local government. The current council tax system also means local government has little freedom and flexibility to fund existing unfunded burdens, like NRPF, or underfunded services, like Temporary Accommodation, or services that see a sudden large increase in demand because it has limited fiscal options. We believe that local government should be permitted greater control over the funding of the services it delivers – this would not only ensure local public services are adequately funded but would, ultimately, strengthen local democratic accountability.

Rationale for a London retention system

23. London Government believes an effective local government finance system must address these issues. We believe the best solution for London – and for the country as a whole - would be to establish a devolved business rates retention system run by London Government with only minimal ongoing input from central government. Successful, self-reliant local government will help drive economic success as well as providing effective and responsive public services.

24. London drives economic growth of the whole country; has a unique property tax base; and has some unique public service pressures because of its population density, demographic profile and levels of migration. London's circumstances may, therefore, require different solutions to other parts of the country in implementing 100 per cent business rates retention.

London's economy

Economic argument 1) Allowing London control over business rates will encourage wider economic growth for London and therefore the rest of the UK economy.

25. London's role as a financial and business centre has helped it lead the economic recovery. It is a centre for high productivity growth industries, such as professional and financial services, and the information and communications sector. London's international competitiveness in these markets is evidenced by the significant level of service exports (over £100 billion) that it achieves and its trade surplus with the rest of the world. This economic activity results in significant fiscal surpluses to the country as a whole.

26. London generates significant levels of taxation, contributing £140 billion (over 20 per cent) of the UK's tax revenues in 2014-15[2], well in excess of the public expenditure devoted to London (£95 billion), leaving a net fiscal contribution of £45 billion[3].

[2] Centre for Cities, *"10 years of tax – How cities contribute to the national exchequer" (July 2016)*

27. London is a global city competing with other global cities. Maintaining London's international competitiveness, particularly once the UK leave the European Union, is therefore crucial to economic activity and the fiscal stability of the country as a whole. The nature of many of the businesses in London is such that if they were to look to relocate elsewhere the choice would be another international city rather than another city or location in the UK. It is therefore in the best interests of the whole country for London's economy to remain strong.

28. London Government believes that a locally controlled business rates system for London would help deliver this, ensuring greater economic growth for London as a whole than one in which the parameters were controlled by central government. Freedom and flexibility to design a more responsive and sustainable business rates system in London, alongside other property taxes, will not only benefit public services in London but will encourage wider economic growth that will benefit whole UK economy.

29. Arguments in favour of re-balancing the economy by enhancing one area at the expense of others are misleading. Economic growth is not a zero sum game. Rather, London must be given the tools to unlock even greater growth for the rest of the country. The Crossrail project (for which almost a third of the funding comes from a supplement on business rates) for example, is forecast to add an estimated £42 billion to the UK economy. Its supply chain has supported the equivalent of around 55,000 jobs across the country with two thirds of its suppliers being located outside London – the majority of which are SMEs.

30. It should be noted that London's economy is interlinked with the greater South East and that business rates growth depends, to some extent, on housing and transporting that workforce. Any significant devolution of business rates to the capital therefore would require a recognition of this by London's leaders and ongoing dialogue with areas outside of the capital.

Economic argument 2) decoupling London's rates system from the rest of the country would prevent the perverse impact of London's property market holding down values (and rates yields) in the rest of the country.

31. London accounted for 42 per cent of the national growth in RV in 2010: a trend that has persisted since the late 1990s. Chart 1 below shows that London as a region has consistently experienced far greater revaluation growth than other regions in the last 18 years. It is likely that this will continue for the 2017 revaluation with rating agents forecasting a significant increase in London (possibly over £1 billion) but with rateable values expected to drop overall in England. If London's business rates yield did rise by £1 billion in 2017, rates yield in the rest of the country would reduce by that amount (around 2 per cent).

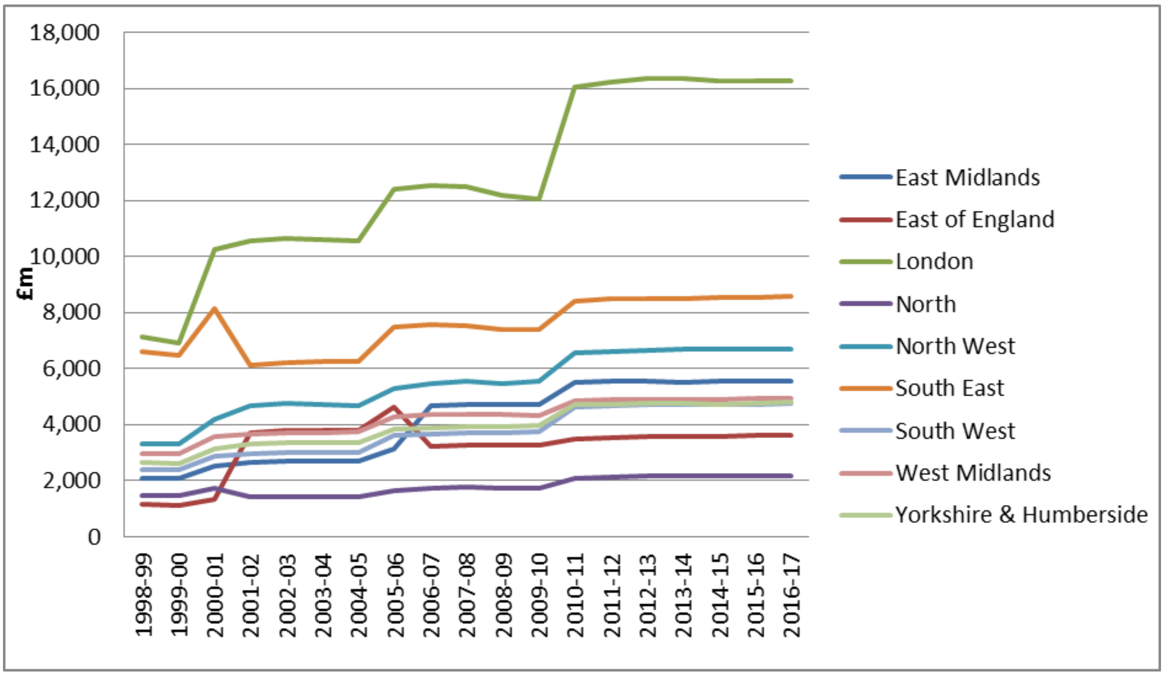
32. If these trends continue, under the current valuation system and assuming the current 5 year revaluations continue, we estimate that by 2040 almost 60% of all business rates income will be generated in London – double the current proportion. This is, arguably

[3] HMT: Public Expenditure Statistical Analysis (PESA) data 2014.

unsustainable, as an ever increasing proportion of the national business yield will come from a, relatively, small number of properties in central London, thereby increasing the exposure of the entire country's business rates values to the volatility of that unique property market.

33. In addition, with the incidence of business rates likely to continue to fall on an increasingly small number of London businesses, the risk of these businesses appealing their rates valuations – and the consequential impact on the entire system of those appeals – becomes larger, further adding to the unsustainability of the current system.

Chart 1 – Rateable Value by region – 1998-99 to 2016-17



Source: VOA

34. Under the current system of revaluation, London's disproportionately high valuation growth leads to a corresponding reduction in business rates payable elsewhere in the country at each revaluation. When business rates were only used to fund local government indirectly, the distributional effect of revaluations had no impact on councils. Under a national retention system, however, a relative increase in London's rateable values would lead to an increase in London's aggregate tariff and a corresponding reduction in the growth rewards and incentives available to the rest of the country.

35. This is exemplified by looking at what the impact of 2010 revaluation would have been had London boroughs been taken out of the system. The overall national average growth in RV was 21% across England; this included an increase of 34% for London's RV. Excluding London, the average growth across England was 16%. The resultant impact of London's disproportionate growth was that 70 local authorities, whose growth was between 16% and 21%, saw their gross yield of rates decline when, had London been excluded, their rateable value and, therefore gross yield, would have grown. Table 1 below shows that London's disproportionate growth held the multiplier down by around 2p, saving ratepayers outside London a collective £633 million.

Table 1 – Comparison of 2010 revaluation figures for local authorities outside of London excluding and including London from the multiplier calculation

	London boroughs included	London boroughs excluded	Difference
Total RV (£m)	40,270	40,270	0
Total Gross rates (£m)	16,390	17,023	633
Multiplier (£)	0.407	0.423	0.016
No. of LAs increasing gross yield:	117	187	70
No. of LAs decreasing gross yield:	176	106	-70

Source: London Councils' analysis of DCLG data

36. Table 2 below shows the impact at the regional level. Rather than reducing by £294 million the overall business rates yield would have been £339 million higher (a net difference of £633 million or 3.9 per cent). Each region would have benefitted by 3.9 per cent compared with what actually happened in 2010-11, with the South East and North West standing to gain the most in net terms (as a result of their higher starting base position).

Table 2 – 2010 Gross business rates yield by region - actual vs modelled excluding London (£m)

	2009-10	Actual values		Values if London had been excluded		Net difference (£m)
		2010-11	Change in gross rates (£m)	2010-11	Change in gross rates (£m)	
Rest of England	16,684	16,390	-294	17,023	339	633
North East	835	855	20	888	53	33
North West	2,673	2,671	-2	2,775	101	103
Yorks & Humber	1,899	1,911	12	1,985	86	74
East Midlands	1,568	1,426	-142	1,482	-87	55
West Midlands	2,088	1,971	-116	2,047	-40	76
East of England	2,268	2,248	-20	2,335	67	87
South East	3,552	3,416	-136	3,548	-4	132
South West	1,800	1,889	89	1,962	162	73

Source: London Councils modelling based on VOA data

37. This shows how the current relative system of valuation, whereby London's underlying economic growth continues to outstrip the rest of the country, has the perverse effect of keeping rate payers' bills lower (and therefore local authority business rates yields lower) in the rest of the country. If the same happens in 2017 (as is likely), business rates baselines will fall around the country outside London – ultimately making those local authorities more reliant on top-up grant, less self-sufficient and less able to benefit from growth in their areas. This clearly undermines the government's policy aim of using business rate retention to incentivise growth across the country as a whole.

38. London Government believes the tax base should be allowed to rise or fall in response to changes in the economy rather than to fit a pre-defined total. Whether local government then chooses to maximise income against that tax base, or to cut rates as RV rises, should be a matter of (local) political discretion and accountability.

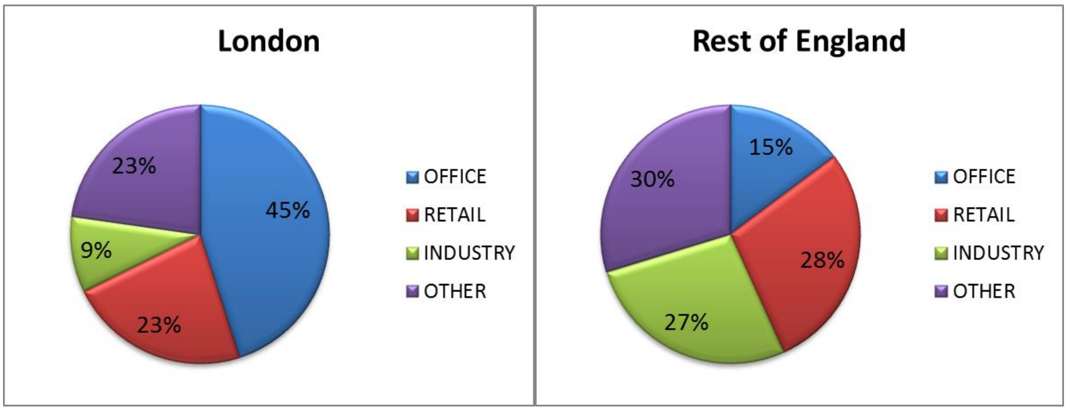
39. “De-coupling” London’s business rates system from the rest of the country would prevent the capital’s robust property market from continuing to distort the operation of the national system and to allow business rates baselines to increase outside of London at a rate which reflects local authorities’ own economic investment and growth.

London’s business rates tax base

40. Given the nature of London’s economy, its business rates tax base is very different to that of the rest of England. London has 16 per cent of the rateable properties in England but these represent 28 per cent of the rateable value (likely to increase to over 30 per cent after the 2017 revaluation). Chart 2 below shows almost half of the Rateable Value (RV) of London’s business rates tax base is accounted for by offices compared with just 15 per cent for rest of England; while industrial properties account for a much smaller proportion of London’s RV than the rest of England (just 9 per cent compared with 27 per cent nationally).

41. Within London, just four authorities (Westminster, the City of London, Camden and Tower Hamlets) account for 50 per cent of London’s total RV; and a third of London’s total RV is accounted for just by offices in these four authorities (£5.4 billion in 2015). This different make-up in RV, and the relative concentration of RV in offices in only a few boroughs, suggests that different tools and solutions may be more appropriate for London than for elsewhere in the country.

Chart 2 – Business rates tax base by sector - London compared with rest of England



Source: VOA, ‘NNDR Stock of Properties’, at 31 March 2015[4]

London’s unique public service pressures

42. London’s demographic profile is notably different to the rest of the country, creating pressures on public services in the capital that are manifestly different from

[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/449291/NDR_Stock_of_Properties_Tables.xls

elsewhere. With some of the most deprived areas of the country sitting alongside the most affluent, London has some of the most complex social problems that come with being Europe's largest and most diverse city.

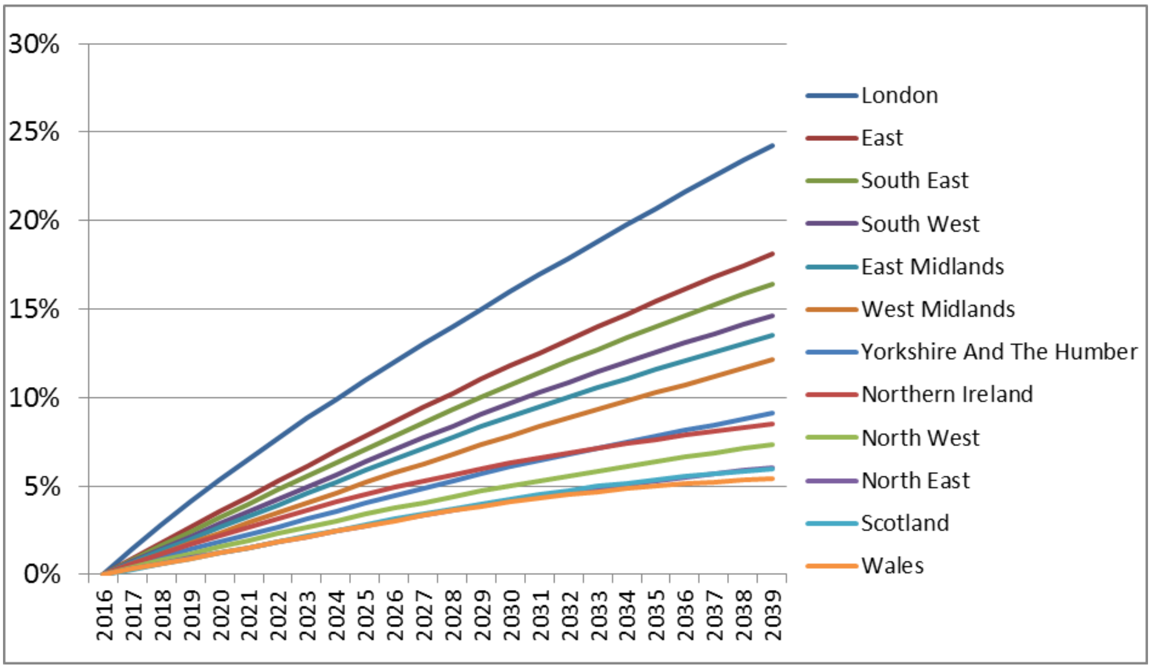
43. It is the most ethnically diverse region in the country with more than a third of residents born outside the UK, and the highest proportion of households where English is not the first language (26 per cent). Its population is also more transient and mobile than the rest of England, meaning boroughs are serving populations with increasingly complex needs.

44. Overall, London continues to show significant relative deprivation: nearly two thirds of London's lower super output areas (LSOAs) have above average levels of deprivation (according to the 2015 Index of Multiple Deprivation). Just under a quarter of London's LSOAs fall within the most deprived 20 per cent of England.

45. Despite being the smallest region by area, London has the second largest population of the UK's 12 regions (estimated to be 8.8 billion in 2016[5]). By 2020 it will have overtaken the South East to become the most populous region of the country, and by 2040 more people will live in London than Scotland, Wales and Northern Ireland combined. This population density creates unique challenges for public services in the capital, most notably in housing, transport and healthcare.

46. However, it is London's disproportionate levels of population growth that really set it apart from the rest of the country when it comes to demand for public services. Over the period to 2039, London's population is forecast to increase by 24% (to over 11 million), double the rate (12%) of the rest of England (see Chart 3 below).

Chart 3 – Estimated change in population by region – 2016 to 2039



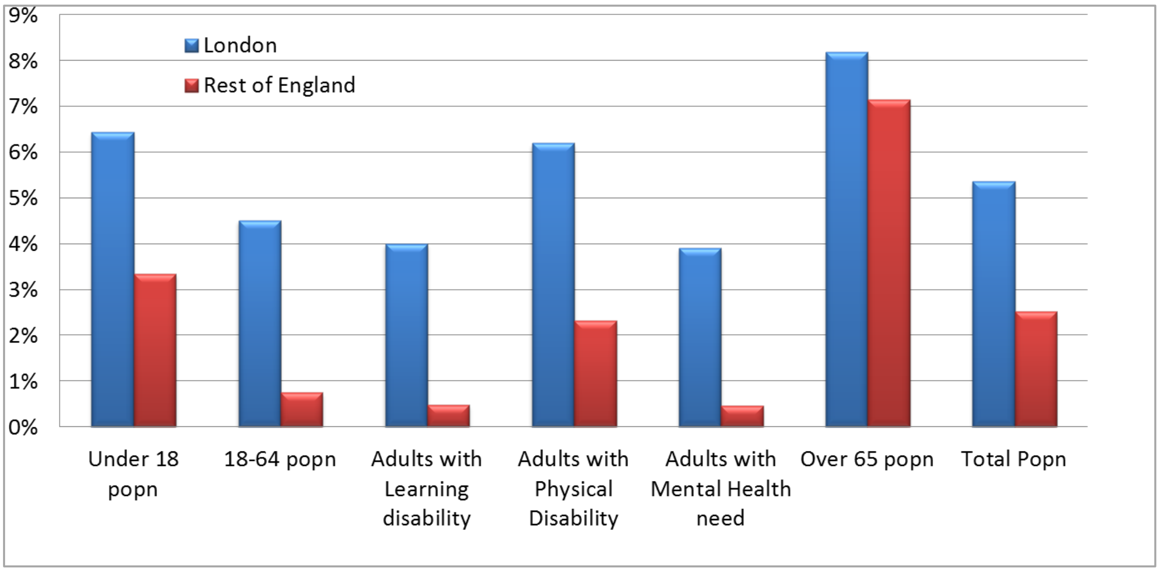
Source: ONS, 2014-based Sub-National Population Projections

[5] 2014-based National and Sub-National population projections (ONS)

47. Any new system of local government funding must therefore be able to respond to such changes, and the consequent increase in demand for services, in order to ensure sustainability over the long term.

48. In the more immediate future, the latest projection estimates forecast London's population will rise from 8.8 million in 2015 to 9.3 million by 2020 (an increase of 5.4 per cent). This is more than twice the anticipated rate of increase for the rest of England (2.5 per cent) over the same period. London will account for 30 per cent of all population growth in England over that period. This disproportionate growth is across the board: Chart 4 (below) shows above average growth in every demographic cohort.

Chart 4 – Projected population growth – London v rest of England 2016-2020



Sources: ONS, 2014-based SNPP; Projecting Adult Needs and Service Information (PANSI) data

49. London's larger relative working age population means that growth in adults aged 18-64 will have a particularly disproportionate impact in London (accounting for 56 per cent of the national growth in that demographic by 2020) compared with other areas. This will put pressure on services related to the working population such as skills, employment support and transport, but in particular will drive greater demand for social care for adults with physical and learning disabilities and mental health issues.

50. Within London, in relative terms, larger than average growth in the 0-18 and the over 65 population will place noticeably bigger demands on London Government to deliver children's services and schools places, as well as health and adult social care for the elderly. Adults and Children's social care are by far the biggest areas of expenditure for local authorities – with some London boroughs spending over 70 per cent of their budget on social care. The far greater than average growth of adults with learning and physical disabilities, and those with mental health problems, will place huge cost pressures on the capital's social care budgets.

51. London Government believes it is imperative that London has stable and sustainable funding mechanisms that have the capacity to grow sufficiently to meet such rising demand.

London Government's vision for a London retention system

52. London's unique position as the driver of the UK economy and the very different demand drivers for public services means there is a strong case for delivering 100 per cent business rates retention differently in the capital. Government has recognised this by naming London as a pilot area to trial certain elements of the new system prior to the start of the full retention system. London Government will work closely with government to develop the London pilot from April 2017 onwards, however London Government wishes to go further than this and develop an autonomous business rates retention system. Our vision for how this would operate is set out below. While we will continue to explore opportunities to pilot early reforms of the system, we recognize that our vision for business rates within London represents fundamental change that would have to be implemented alongside the wider national reforms

A. Retention level

53. London Government has consistently called for the full devolution of business rates to the capital. This was one of the recommendations of the 2013 London Finance Commission (along with further control of the full suite of property taxes), and is likely to be advocated in the 2016 London Finance Commission, as part of a push for broader fiscal devolution. It was also a central ask in London Councils' 2015 Spending Review submission.

54. In 2016-17 the government expects London boroughs to collect £6.7 billion in business rates[6], retaining half £3.4 billion, and paying a tariff of £345 million. London Government therefore retains around £3 billion - or 90 per cent of its local share of rates (45 per cent of the overall total business rates). By 2019-20 inflation alone would see the overall quantum rise to £7.3 billion and, with an estimated increase of around £1 billion due to the 2017 Revaluation[7], the total by 2019-20 would be £8.4 billion.

55. Table 3, below, shows that London is likely to have headroom of around £4.0 billion by 2019-20: that is the amount by which business rates would exceed current spending responsibilities. Full retention in 2019-20 would, therefore, require London Government to finance additional responsibilities from business rates (beyond TfL grant already announced) for around £4.0 billion of services to match the available resources in order to be "fiscally neutral".

[6] This is calculated using the GLA's business rates baseline divided by 0.2 (its 20% retained share), to aggregate up to a total London business rates "target"

[7] Current modelling suggests the overall RV could increase by around 30 per cent, meaning a corresponding increase in rates yield of around £1 billion.

Table 3 - Forecast London business rates post transfers and revaluation (£bn)

	2016-17	2017-18	2018-19	2019-20	2019-20 (post transfer of central share)
Total business rates	**6.735**	**7.867**	**8.099**	**8.358**	**8.358**
Central share	3.368	2.596	2.673	2.758	0.000
Retained share (BRB)	3.357	5.271	5.426	5.600	8.358
Baseline Funding	3.012	4.179	4.274	4.383	4.383
Tariff or "headroom"	-0.345	-1.092	-1.153	-1.217	-3.975
% of total rates retained	45%	53%	53%	52%	52%

56. It is important to reiterate that full retention of business rates would not result in London having extra money to spend on the same services being delivered elsewhere, but in London being required to deliver additional services that are currently delivered by central government departments and funded through other means (mainly by general taxation).

57. The issue of the percentage retained is inextricably linked with the question of the responsibilities that are transferred (see section B below). It is possible (without disadvantaging the rest of the country) to fund all of the services and grants proposed for transfer within the anticipated business rates to be collected in London with (see Table 4 in section B below).

58. However, if the national approach to transfers requires a continued contribution from London to support services elsewhere, London Government would prefer one overall aggregate tariff to be paid to government each year, combined with the freedom for London to set its own tariffs and top-ups to distribute the remaining retained sum (see section D below). The aggregate tariff, would be calculated using a funding and business rates baseline for London as a whole (determined by a national reset by central government), and would be a share deducted from every London billing authority's business rates take (in a similar way to the central share currently), and then London Government would set top-ups and tariffs to balance to zero *within* London. This would effectively disentangle London from the national system except for an overall aggregate needs assessment (funding baseline) and enable funding and business rates baselines to be set within London.

Ask 1 – London Government seeks to explore full retention of the business rates collected in the capital by 2020; if London does not retain 100 per cent of its business rates, we ask that the tariff is one single payment at the aggregate London level

B. <u>Additional Responsibilities</u>

59. London Government believes, when determining the existing grants and new responsibilities that should be funded by business rates, priority should be given to responsibilities that maximise London Government's ability to improve the life of Londoners, the effectiveness and efficiency of its public services, and the future economic success of the capital.

60. We would therefore wish to prioritise the transfer of grants and responsibilities that:
- have a direct relationship to business;
- help tackle key infrastructure challenges, including housing and transport; and
- have a compelling public service reform case to be delivered more efficiently and effectively by local government.

61. We believe the government should first consider the outcomes the sector is aiming to achieve, and then design local public services around them. This will require greater exploration of the funding necessary to deliver those outcomes. However, the list set out in the consultation document is a helpful starting point, which we have used to identifying grants and responsibilities we feel are suitable candidates to be transferred in Table 4.

62. The grants and responsibilities listed below are grouped by whether they are a new responsibility or existing grant, and then by which of the three principles set out above they meet. Estimated values for London in 2019-20 are set out in the fourth column. In determining the levels of funding to be devolved in relation to new responsibilities the Government should take into account the costs of administration as well as any initial set up costs including relating to the transfers of assets and staffing.

Table 4 – Existing grants & new responsibilities - Suitable candidates for transfer in Addition to TfL Capital Grant

	Existing grant or responsibility	Reason(s)	Estimated London value in 2019-20 (£bn)
Skills - 16-19 funding	New responsibility	Business link/PSR	0.499
Adult Education Budget	New responsibility	Business link/PSR	0.400
Careers Service	New responsibility	Business link/PSR	0.097
Work and health programme	New responsibility	Business link/PSR	0.014
Youth Justice	New responsibility	PSR	0.054
Valuation Office Agency	New responsibility	PSR	0.032
Affordable Housing capital funding	Grant	Infrastructure	0.417
Transport capital (outside London)	Grant	Infrastructure	n/a
Early Years funding within DSG	Grant	PSR	0.748
Public Health Grant	Grant	PSR	0.628
Revenue Support Grant	Grant	PSR	0.538
Improved Better Care Fund	Grant	PSR	0.247
Housing Benefit Admin Subsidy	Grant	PSR	0.033
Independent Living Fund	Grant	PSR	0.019
CT Support Admin Subsidy	Grant	PSR	0.015
Rural Service Delivery Grant	Grant	PSR	n/a
Total grants & responsibilities			**3.741**
Total "headroom" in 2019-20			**3.975**
Remaining capacity			**0.234**

NB: The RSG figure here is net of the GLA's RSG which will be funded from business rates from April 2017. TfL Capital grant is also excluded as this will be transferred in 2017-18. The estimated figure for 16-19 skills funding excludes 6th form and academy providers at this stage.

63. Table 4 includes all of the grants listed in the consultation document (with the exception of Attendance Allowance). In addition, (and in line with Adult Education Budgets which is mentioned as a devolved responsibility in Devolution Deal areas), we believe there is a strong argument for devolution of 16-19 skills funding, and National Careers Service funding, which have clear links to business and growth, and could be delivered more efficiently by local government.

64. The transfer of TfL capital funding in 2017-18 sets a precedent for other similar transfers under 100 per cent retention. The need to build more homes is the biggest issue facing London's public services in the medium term. We believe there is a strong argument, therefore, for using business rates – as a relatively stable income stream – to fund affordable housing rather than relying upon grant funding from government.

65. We believe the government is right to consider the responsibilities already transferred to areas with devolution deals. Those areas have been able to show why they warrant the additional responsibility and have negotiated bespoke packages for their own areas. We expect to see (and would support) devolution of a common core package of services funded from bus rates across the whole sector – but would want to see flexibility for additional transfers beyond that where feasible and appropriate. Some of the more universal elements of the existing devolution deals, which have a clear link to business and economic growth, lend themselves to being transferred to the whole sector for example Adult Education Budget and transport capital grants.

66. Table 4 shows London is likely to have more than enough business rates headroom to fund all of these responsibilities from 2019-20, however if a national solution requires an on-going London tariff, London's priorities would be to transfer those responsibilities which best support its ability to promote growth and implement local public sector reform.

Ask 2 – London Government would prioritise the transfer (over and above what has already been decided) of:

- ***Skills - 16-19 funding***
- ***Adult Education Budgets***
- ***Careers service***
- ***Work and health programme***
- ***Capital funding for Affordable Housing; and***
- ***Early Years funding.***

Local control

67. London Government does not be believe it is appropriate or acceptable to transfer the risk of future spending commitments that London Government is unable effectively to influence. Any transfer of responsibility must therefore be based on a realistic assessment of its in-built spending pressures and be accompanied by a corresponding devolution of policy control**.**

68. As such, we are united with colleagues across the sector in our opposition to the responsibility for providing Attendance Allowance (or a similar such welfare benefit) being transferred to local government. We firmly believe this should remain centrally administered by the Department for Work & Pensions and should not therefore be transferred to local government. The government has provided no detail about how any new Attendance Allowance administration arrangements would work if devolved to local government or the levels of control and influence the sector would have over the scheme, or any evidence that the in-built spending pressures this would bring has been considered. This is disappointing given the size of the funding involved (£5 billion nationally), and the likely increase in demand for this benefit that will result from an aging population. There is no reason to suggest business rates as a funding stream, and local government as a sector, would be better placed to deliver this benefit than central government through general taxation.

Beyond 2020

69. In support of broader ambitions for devolution and public service reform, London would also wish to continue exploring approaches that transferred service responsibilities – and appropriate revenue sources – above and beyond those that could be financed entirely by retained business rates beyond 2020. We believe this should be through devolution of further tax raising powers (in line with the likely recommendations of the 2016 London Finance Commission).

Ask 3 - London Government would wish to agree prior to the start of the 100 per cent retention system a robust mechanism for negotiating and agreeing with central government any new responsibilities that are to be delivered in the capital beyond 2020

C. Revaluations

De-coupling London

70. As set out in paragraphs 31-39 (above), there is a strong argument for de-coupling London's business rates valuations from the rest of the country in order to provide a closer link to economic conditions throughout the whole country and enable all areas to benefit from growth.

71. The 2017 revaluation is likely to lead to an overall increase in business rates in London – based on past trends and current information from rating agents' – whose forecasts have suggested underlying business rates liabilities for London ratepayers could increase by up to £1.1 billion in 2017-18 compared to 2016-17, due to the combined effect of the revaluation and the RPI uplift in the multiplier based on the assumption rateable values in London will increase by an average of 8% compared to a forecast reduction nationally. If such an outcome materialises once the valuations are published on 30 September, this will have the perverse effect of keeping rate payers' bills lower (and therefore local authority business rates yields

lower) in the rest of the country - ultimately making those local authorities more reliant on the top-up grant and less self-sufficient.

72. London Government would urge the Government to ensure that a fair transitional relief scheme is introduced to phase in the changes in bills arising from the 2017 revaluation over five years – ideally with very limited increases in 2017-18. This is necessary because of the significant volatility in rates bills which result from the expected relative increases in rateable values in London and is not conducive to delivering a robust and sustainable taxbase across the whole of England. This is not in the interests of London ratepayers or indeed those in the rest of the country and could be avoided in future if the capital operated its own revaluation arrangements. This is also a further illustration as to how the current arrangements undermine the government's policy aim of using business rate retention to promote growth across the country as a whole.

73. London Government believes sub-national areas that can show to government they are willing and capable of delivering devolved control of business rates should be allowed to retain the benefit of increases in their taxbase. The principal underpinning this argument is that the tax base should be allowed to rise or fall in response to changes in the economy rather than to fit a pre-defined total. Where RVs increase, local government could either (a) leave the multiplier untouched, and therefore raise greater resources to meet local needs; or (b) reduce the multiplier while maintaining spending; or (c) some combination/trade-off between the two. Whether local government then chooses to maximise income against that tax base, or to cut rates as RV rises, should be a matter of (local) political discretion and accountability, taking into account the views of the local business community.

74. Breaking the link between revaluation and the fixed quantum of tax yield benefits both those areas where commercial property markets are strong and those where they are not. In each of these cases set out above – without increasing the burden on individual taxpayers – accountability and the relationship between local business and politicians will be significantly improved. It would also prevent the capital's robust property market from continuing to distort the operation of the national system and to allow business rates baselines to increase outside of London at a rate which reflects local authorities' own economic investment and growth.

Ask 4 - London Government asks that the Government considers ending the principle of "fixed yield" revaluations, and that London's business rates be "de-coupled" from the national valuation system.

Keeping revaluation growth

75. Whether London's valuations can be decoupled from a national system or not, London Government would at least want to see a system in which it was possible to retain some element of revaluation growth in order to correct one of the major defects in the current arrangements: the fact that growth is measured as physical rather than revaluation (underlying economic) growth.

76. One of the biggest reasons why there is a weak growth incentive in the current system is that growth is measured purely in terms of physical growth rather than taking into account any underlying revaluation or economic growth, even though the latter is likely to reflect increased profitability and therefore additional tax revenues for central government. This limits the ability of local authorities to benefit from the growth in rental values derived, in part, from their investment in making their local areas more attractive as a business destination, for example through incentivising businesses to locate there, improving the public realm and transport links. It also has the strange (in purely economic terms) impact of incentivising growth of businesses with large physical floor space and not necessarily businesses that generate high GVA.

77. While the estimated business rates tax take in London could increase by over £1 billion in April 2017, the government's commitment to redistribution means that the GLA/Mayor and boroughs will derive no additional financial benefit (although they are likely to bear the brunt of any complaints from ratepayers). Meanwhile local authorities outside the capital have even less incentive to invest in their local business environment as any gains are stripped out by the redistributive impact of the national revaluation.

<u>A London Valuation system</u>

78. As set out above (paragraph 11), the impact of incorrect valuations leading to ratepayers challenging their rates bills through appeals is the biggest issue with the current retention system. This has significantly eclipsed any incentives local authorities have had to grow business rates and clouded any measurement of actual business rates growth.

79. London, with around 16% of the national business rates hereditaments, has seen a disproportionate level of total appeals against the 2010 ratings list (22%) and a £960 million provision for appeals at the end of March 2016 (32% of the national total).

80. There are structural weaknesses in the appeals process, which the "Check Challenge Appeal" reforms are trying to address. However there are more fundamental issues with the performance of the Valuation Office Agency that stem firstly from the valuation basis (meaning a high level of incorrect calculations to start with); and, secondly, in failing to deal with the backlog of appeals efficiently. Analysis of VOA data based on the position at 31 March 2016 shows the number of unresolved appeals as a percentage of the number of properties in the local rating list across the 33 London billing authorities ranged from just over 10% to as much as 40% compared to the England average of about 15%. The relative backlog is notably higher in those London boroughs with the highest business rates taxbases in England such as the City of London, Hillingdon, Tower Hamlets and Westminster, where the materiality of any appeals will tend to be greater in financial terms as a result. By contrast in Wales which has its own devolved arrangements the relative backlog was only 9%. A differential rate of appeals clearance means some local authorities have lost out financially relative to others – both in terms of higher appeals provisions and higher safety net payments until these appeals are cleared.

81. To address these issues, a more efficient and effective system could be established if London Government was given the ability to determine the basis of valuation and to administer the system through the establishment of separate London Valuation Office Agency. The exact process of valuation would be for London Government to determine collectively; however, this could include a system of self-assessment or a formula based system which could enable more frequent – ideally annual - valuations that would be more responsive to underlying economic conditions.

Ask 5 - London Government calls for the ability to determine its own valuation system to be administered by a regional valuation office for London.

D. Resets: balancing needs and resources

82. Finding the appropriate balance between risk and reward - meeting need and incentivising growth - is perhaps the biggest challenge in setting up the 100 per cent retention system. London Government recognises the need to have sufficiently long periods between resets of the business rates baselines to incentivise growth, whilst also ensuring that changing needs are recognised in the funding baselines on a regular basis. The government has proposed ‘partial’ resets of both funding and business rates baselines on the same timetable. Emerging consensus from the “systems design” working group is that 5 yearly partial resets (of both funding and business rates baselines) requires further exploration, but could form a suitable solution at the national level.

83. We believe that, within a London retention system, the frequency of resets should be determined locally by London Government. As such, we would seek to manage future resets of business rate and funding baselines taking into account the overall balance between spending need, council tax base, the speed of change and the desire to maintain incentives within a devolved system. We think that it may be possible to reset funding and business rates on different timetables, for example with business rates baselines being set over a longer period (10-15 years for example) and funding baselines being reset more frequently (every 3 years for example), and would explore options around this.

84. How resets within London relate to national resets will ultimately depend on the degree of autonomy a London retention system has.

Ask 6 – London Government calls for the ability to manage future resets of business rate and funding baselines, and their impact, within London.

85. London Government would advocate a system of equalisation continuing through tariffs and top ups but, as set out earlier (Ask 1), one where they balance to zero *within* London. If London was required by government to pay a tariff at the outset of the system, this would be paid collectively as a share rather than having individual business rates and funding baselines being directly set by the national assessments.

86. There is common agreement across the sector that any new needs assessment system should be less complex and more responsive to changes than the current system. A potential solution could involve a two-stage approach to assessing need. The first stage would be an assessment of needs at a suitable sub-national level, followed by a more local/sub-regional approach to allocate within these areas. London Councils has undertaken some initial analysis of how a two stage system could work in practice finding evidence to support the conclusion made by the Independent Commission on Local Government Finance that there is greater divergence within regions/sub-national areas than between them. The modelling suggests it is possible to allocate resources in a much more simplified and transparent way to these areas based primarily on population and deprivation variables.

87. In setting funding baselines within a London system, London government would not seek to invent a needs formula from scratch, but to be able to vary the individual assessments for London's local authorities from the national needs formula over time to reflect London's rapidly-changing circumstances, including significant issues such as housing need, population growth/churn and specific London cost pressures; a future London needs assessment would continue to reflect the unique circumstances of the City of London.

88. We would also wish to be able to determine locally the extent to which wider resource capacity (council tax raising ability) is taken into account and the extent to which any transitional arrangements may be necessary by, for example, providing a degree of transitional protection for boroughs and the GLA in both the transition from a national needs assessment to a local one, and indeed following local resets.

89. London Government believes a local solution for distributing funding would:
   - be less complex and therefore more transparent;
   - be more responsive to population changes; and
   - give London boroughs and the GLA more collective ownership over the process and therefore would build trust that the system is fair.

Ask 7 – London Government proposes a two-stage process in which a regional needs assessment for the capital would be combined with the ability to vary a needs formula within London over time to reflect local circumstances.

E. Determining allocation of resources between tiers of London Government

90. The reforms to 100% business rates retention raise some important issues and questions for two tier areas. It is important for the reforms to be equitable, and for all tiers to work together to find the best possible solution.

91. In principle, it is our view that the allocation of resources in London should follow the responsibilities to be funded – as is proposed for 2017-18 where the GLA share is

forecast to increase to 37% following the agreed transfer of TfL capital funding and the proposed transfer of the GLA's RSG. The final split of rate income between the Boroughs and the GLA should, as a starting point, reflect the agreed package of responsibilities undertaken by each. Any future revision of that split should be periodically agreed and managed by London Government, in line with changes in responsibility over time and any "resets" of the system.

Ask 8 – London Government asks for the ability to decide collectively for itself how business rates are shared between the boroughs and the GLA.

F. Setting Business Rates – flexibilities

Control over setting the multiplier(s)

92. London Government would wish to explore options for either a collectively agreed single multiplier across London, or two separate multipliers with the Mayor of London being granted the ability to set a proportion of the rate on a London wide basis, and boroughs collectively setting the rest of the multiplier. These two shares of the overall multiplier would be determined by the funding and retention split as set out above. We would want to explore the relative advantages and disadvantages of options for either a defined, periodically-reviewed split of income between the boroughs and the GLA, or for the establishing a separate Mayoral rate. Northern Ireland already operates a system incorporating a multiplier set province-wide and a separate one set locally, and we believe a similar arrangement would be possible in London and in two tier areas in the rest of England.

Ask 9 – London Government initially seeks the flexibility to determine the business rates multiplier(s) in London, agreed collectively between the Mayor and London's borough Leaders over a defined period.

93. Following successful implementation of a London scheme, however, we would want to return to the issues of full control of rate setting – including the safeguards that would be required to prevent a disproportionate tax burden on business – along with a broader range of fiscal devolution as envisaged by the London Finance Commission.

The Infrastructure Levy

94. Short of being given powers to raise the overall multiplier, London Government – despite not being a Combined Authority area – would, at the very least, wish to be able to raise the 2% infrastructure levy offered to other areas. London's infrastructure needs are different from those of the rest of the country London government considers that the Mayor of London should have the power to introduce an infrastructure levy in addition to the existing business rate supplement which is committed to fund Crossrail 1 until the mid-2030s. The legislation should provide for this to be possible even if this is not the Government's current default policy position. If necessary, the Secretary of State could be given specific powers to approve the

introduction of new levies for authorities not automatically eligible to fund specific projects – subject to appropriate consideration by the local LEP. The Business Rates Supplement (BRS) that funds Crossrail has been a large success, and shows how London's property market can sustain additional taxation when the benefits of infrastructure development are made clear to businesses.

95. In addition, we believe there should be a broadly defined definition of "infrastructure" that includes affordable housing. The Government will also need to give consideration as to the mechanism by which the LEP should approve the introduction of a new infrastructure levy. Subject to the proposals being in compliance with the final prospectus approved by the LEP the annual tax setting responsibilities should in our view lie with the directly elected Mayor in the context of London's governance arrangements.

Ask 10 – London Government asks that the 2% infrastructure levy is made available to the Mayor of London.

Reliefs and Discounts

96. Mandatory reliefs awarded in London amounted to around £650 million in 2016-17, and are currently set by central government. London Government believes these could be used more constructively to improve local economies if devolved to London Government.

97. We believe London Government should have the collective ability to set the qualification criteria and thresholds of the existing mandatory reliefs currently set by central government (and the discretionary elements of those schemes), as well as determining new mandatory relief schemes periodically when deemed necessary. This would include the small business rates relief threshold. Where individual boroughs or the Mayor wished to offer additional discounts over and above a collective scheme agreement, this could be achieved through adjustments to their retained rates. We therefore believe the power to offer business rates discounts directly should be extended to the Mayor of London, where these were more generous than those being offered by billing authorities, although these would be paid for from the GLA share of retained rates.

98. Locally determined reliefs and discounts would encourage greater dialogue and engagement between London Government and businesses and empower local authorities to respond to the specific needs of their local economies, for example leading the regeneration of high streets and town centres by incentivising cafes, arts and culture spaces, workspace or civic uses. Collective control over reliefs would also facilitate more strategic planning to meet other statutory duties for example, by tailoring reliefs to incentivise the provision of healthy food retailers (rather than fast food outlets) they could help promote better public health outcomes.

99. These reforms could create a far stronger platform on which to increase incentives to support economic growth, promote broader policy objectives and link councils more closely to their business communities.

Ask 11 – London Government seeks the flexibility for all parts of London Government to determine all business rates discounts and reliefs, including scheme parameters and thresholds

G. Distributing the benefits of growth

100. Under the current 50% retention system, boroughs in theory benefit from 30% of growth in rates in their area above the assumed baseline: 20% goes to the GLA and 50% to Government. In practice, the impact of appeals and the timing of the initial baseline calculations have meant that there has, to date, been no real correlation between boroughs' economic growth and business rates growth, and similarly between this overall business rates growth and retained business rate income.

101. These problems should, as far as possible, be designed out of the system in the transition from 50% to 100% retention. In the longer run, the retention and distribution system must be capable of delivering greater and more certain rewards if it is genuinely to incentivise growth.

102. The first, and most basic, option would simply distribute growth according to the retention shares between the boroughs and the GLA. Under a London system that continued, for instance, to have a 60:40 split between the boroughs and the GLA, any growth would continue to be retained in those proportions. However, were the Mayor and the boroughs to have separate multipliers which changed at different rates each year, the growth retention split between the boroughs and the GLA would vary each year depending on how their respective multipliers changed.

103. However, London's economy is a complicated system in which different parts of the capital will have different, but inter-related, roles to play. For the economy to keep growing in a sustainable manner, we need to expand the overall business premises capacity, but also to find ways to house, train, transport and provide access to leisure and culture for millions of people around the capital. We may therefore want to use some of the proceeds of growth to facilitate additional investment, and to create targeted rewards that incentivise contributions to the capital's overall success beyond hosting new business properties.

104. An alternative option could, therefore, see retained rates split into 3 shares:
    - one for the individual borough;
    - one for the GLA; and
    - a third for an overall central pool to be distributed according to collective priorities.

105. The relative shares would be for the boroughs and the GLA to agree at the outset of the new system, and could be reviewed periodically in line with collective priorities. So if, for instance, London Government collectively agreed a pool share of 10%, again assuming a 60:40 starting split the remaining 90% would be split 60:40

between the individual borough and the GLA. The overall shares of any growth would therefore be 54:36:10 (boroughs:GLA:pool). A separate Mayoral rate, varied at a different rate to a borough rate, would again have an impact on the borough:GLA part of this split.

106. London Government would establish a robust governance arrangement prior to the start of the system to:
   - agree the size of the pool share;
   - decide priorities for how it is used; and
   - decide mechanisms for its distribution.

107. Once the system is up and running, an ongoing governance/decision making forum would be required regarding the pool.

Ask 12 – London Government asks for the ability to determine collectively how the proceeds of growth are shared within London

H. <u>Managing risk: Safety nets and the Central list</u>

<u>Safety Net Mechanism</u>

108. If the move to 100% retention is to be successful then the need to share and manage risk effectively will be essential. London Government is supportive of introducing a devolved London pooling arrangement to manage risk and uncertainty and ensure resources are allocated in the most efficient way.

109. We support the Government's intention to end the system of levies on growth; however, it is important to ensure that authorities experiencing one off shocks to their rates base have the support of an appropriate safety net mechanism. If the issue of appeals could be addressed by managing a proportion of these centrally this would also serve to reduce the call on the safety net mechanism in future. Were London to establish a devolved business rates retention system, significant consideration would be given to how this safety net mechanism would work and, importantly, to how it should be funded. Options include earmarking a proportion of a collective growth distribution pool or retaining an element of the rates income from a regional "London list" of infrastructure assets within the capital (see para 111).

110. However, we believe London's future approach to managing risk should not be separated from the questions of the overall proportion of rates retained (see section A) or the degree of devolved control over the business rate taxbase (sections E to G). In essence, the greater the degree of autonomy, the more reasonable it will be to expect London to manage its collective risk for itself. Conversely, the more London remains part of a national system, and the more limited its control of the taxbase, the more London should expect to look to Government to share some of that risk. Of particular significance here would be if Government retained levers over the setting of the tax such as the method of indexation or the thresholds for reliefs. Under these circumstances London Government would expect government to provide a degree

of support in managing the impact of changes to these central levers that could impact on London’s business rates take.

111. Under a fully devolved London retention system, therefore, in which 100 per cent of the rates were retained in the capital, London Government would expect to manage and fund the safety net mechanism. Under a system whereby London continued to pay a tariff to fund the rest of the sector, we would expect to share the funding of a London safety net with the rest of the sector.

Ask 13 – Under a devolved retention system, London Government asks that the safety net mechanism and thresholds are determined locally by London Government

Reducing the size of the central list as far as possible

112. The central list has been identified as a potential source of funding for future safety net arrangements. Where responsibility for such arrangements is devolved, it would be appropriate also to maximise local access to the rates derived from properties currently held on the central list. London Government considers that, unless there is a clear case for an assessment to be on the central list, it should therefore sit on a local list. This would also increase opportunities and incentives to maximise the value and use of such assets where possible.

113. For example, the central list currently includes a large proportion of Transport for London’s network and rail infrastructure, including the London Underground, DLR and TfL station carparks, which could be transferred to the local rating list, so that London could retain the full benefits of the investment it makes to improve the capital’s transport infrastructure.

114. Alternatively it TfL’s assessments could be moved to an area or London regional list in order that the capital can benefit from all of the business rates growth arising from transport investment. TfL also considers there would be operational efficiencies from combining these onto a single assessment. Responsibility for collecting any rates due from the London area list including the TfL assessments could be given to a single London billing authority but the entire proceeds should be made available London wide, potentially via the London redistribution pool.

115. There may also be an argument for separating out those parts of the Network Rail assessment which are now administered by TfL – for example the TfL rail and London Overground assessments – to be transferred over as well. This is an option which we would be keen to explore, at least in relation to station infrastructure including car parks even if it is not practical to transfer the actual rail network elements.

Ask 14 - London Government would seek to transfer central list properties to either a local or regional list wherever possible, including the transfer of TfL’s separately identifiable assessments potentially as a single TfL operational assessment.

I. Governance

116. A regional approach to managing business rates in London will require appropriate mechanisms to ensure that robust, timely and accountable decisions can be taken to raise and distribute tax revenues. In return for the level of devolution and autonomy London Government is asking for, central government will require reassurance that London is capable of governing such a system collectively. The governance structures and decision making mechanisms will, therefore, be vital.

Building on existing structures

117. London Government is well placed to develop a collective governance model to enable a devolved business rates retention system. London is the only region in England with a regional tier of government. London's 33 local authorities and the Mayor of London have developed a mature relationship that has gradually evolved since 2000.

118. London Councils is the representative body for the 32 London boroughs and the City of London Corporation. Its Leaders' Committee is its main decision-making body. The Committee includes the Leaders of each London borough council and is chaired by the Chair of London Councils. Meeting eight times a year, Leaders' Committee sets policy and takes decisions on the latest developments affecting London local government. There is also a smaller cross-party Executive Committee which guides the organisation's day-to-day work.

119. In 2010 the Mayor of London and Chair of London Councils agreed the London City Charter, which called on Government to "recognise the maturity, efficiency and accountability of London's unique system of self-government and to take decisive steps to devolve further powers, responsibilities and fiscal capacity to London's elected governments"[8]. The Charter established the regular meetings of the Congress of Leaders, which currently meets at least twice a year, whose membership consists of the Mayor of London, the Leaders of each London Borough and the Chairman of the Policy & Resources Committee of the City of London Corporation. This has formed the basis of joint decision making between the two tiers of government ever since.

120. Deputy Mayors from the Greater London Authority attend as observers and to support the Mayor. The Congress of Leaders therefore consists of thirty four members who represent their own mandate but also consider both the city-wide and local interests of London. The Congress is chaired by the Mayor, with the Chairman of London Councils as the Deputy Chair of the Congress. The London Assembly also provides scrutiny over the decisions of the Mayor of London and has the ability to amend his annual budget subject to securing a two third majority.

Decisions required to set up and run a devolved retention system

[8] http://www.londoncouncils.gov.uk/download/file/fid/11161

121. The proposals set out in this paper generate three classes of decisions for London to Government address:

- ***Initial set-up:*** decisions and agreement with Government on the scheme design, including the level of retention, responsibilities transferred, the basis and frequency of revaluations, and resets, the allocation of resources between GLA and boroughs, the multiplier(s), the framework for discounts and reliefs, the distribution of growth proceeds, the operation of a regional safety net and a regional list. Such decisions would need to be taken collectively – and unanimously – by the Mayor of London and Leaders.
- ***On-going tax-setting and resource allocation:*** annual decisions such as setting the multiplier(s) and allocating the collective growth pool; periodic decisions such as agreeing revised baselines and changes to the needs formula. These decisions would need to be taken collectively by the Mayor and Leaders, building on the existing Congress arrangements, with appropriate voting and other principles consistent with the London Finance Commission in 2013, built in to ensure the appropriate protection of minority interests within London.
- ***Technical underpinning and review:*** it may require two independent technical commissions to manage on-going work around valuation (including the performance of a regional VOA) and the operation of the tax, and around maintaining the needs formula and distribution model. Political oversight of these commissions could be undertaken by the Governance structures described above.

<u>Existing principles</u>

122. The London Finance Commission identified a set of principles upon which such governance could be based. These were expanded in evidence submitted to the CLG Committee inquiry into fiscal devolution in April 2014. These governing principles are as follows[9]:

- **Each element of London government should have a stake:** Elected leaders of all London local authorities and the Mayor of London must be able to feel confident about the governance arrangements for the new finance system
- **No exclusion:** No one borough or group of boroughs can be excluded from the benefits of London's success or become disempowered from addressing local needs.
- **No over-riding:** Interests of the Mayor cannot be overridden by the boroughs or vice versa.
- **No deadlock:** Arrangements must prevent or break deadlock. We believe that this can be achieved through suitable voting arrangements and clarity about which tier

[9] Extract from a joint letter from Boris Johnson, Mayor of London and Mayor Jules Pipe, Chair of London Councils to Clive Betts MP, Chair of the Communities and Local Government Committee, 10 April 2014, submitted as evidence to the Committee's review of Fiscal Devolution

of government is responsible for decision-making, as reflected in the principles below.

- **Enforcement:** The system must enforce binding decisions and these decisions must reflect a clear initial consensus – even if there are disagreements from time to time about individual decisions.
- **Simplicity and clarity:** The reformed system should be as simple as possible. It should avoid the need for annual decision-making between different sections of London government. It should seek to distinguish clearly the responsibilities of the GLA, Boroughs and London Assembly.
- **Stability…** Existing responsibilities should be maintained where possible.
- **… But potential for reform.** Provisions in the 'devolution settlement' should enable, by agreement, periodic property tax reform and changes to any within-London distribution arrangements. Such reforms would be distinct from the 'Day 1' operation of a devolved system. There should also be a presumption that the more significant reforms were proposed, the longer they would be phased in.
- **Practical operations:** decisions would be taken by the Mayor or Borough politicians as appropriate. However, a joint GLA and London Councils Officer Group would provide standing technical advice and support for politicians to decide matters where there is significant joint interest under the above arrangements. This might be independently chaired.
- **Decision rules:** Any new system would require a set of decision rules, some of which would be reflected in legislation. For instance, Parliament might legislate for periodic property revaluations to be carried out by devolved authorities. There are various options for the rulebook governing changes within London following devolution but here is one example:
    - Mayor would need to agree any decision and by converse would have a veto
    - Boroughs would need to agree to any decision by their own rules (e.g. two-thirds majority)
    - The London Assembly would retain its existing powers to amend or reject the Mayor's tax and spending decisions, which would be enhanced commensurate with the increase in the Mayor's powers.

123. The Mayor of London has re-formed the London Finance Commission to review, refresh and revise its original recommendations in light of the changed circumstances, following the UK's vote to leave the European Union. It will report by the end of 2016. We will follow the work of the commission closely, and anticipate that it will re-visit the governance principles outlined above in the context of recommendations on broader fiscal devolution.

London Government will work with government collectively build on these principles to define and establish appropriate governance arrangements to manage a devolved business rates system.

APPENDIX 1 – Detailed responses to the consultation questions

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

124. London Government favours prioritising the transfer of responsibilities that maximise its ability to improve the life of Londoners, the effectiveness and efficiency of its public services, and the future economic success of the capital. We therefore favour transferring in grants and responsibilities that:
    - have a direct relationship to business;
    - help tackle key infrastructure challenges, including housing and transport; and
    - have a compelling public service reform case to be delivered more efficient and effectively by local government.

125. As stated above (section B), we believe the government should first consider the outcomes the sector is aiming to achieve, and then design local public services around them. This will require greater exploration of the funding necessary to deliver those outcomes. London Government supports the grants and responsibilities listed in Table 4 being transferred to local government. Of the existing grants listed in the consultation, this includes:
    - Revenue Support Grant
    - Rural Services Delivery Grant
    - Transport for London Capital Grant
    - Public Health Grant
    - Improved Better Care Fund
    - Independent Living Fund
    - Early Years funding
    - Youth Justice funding
    - Local Council Tax Support Admin Subsidy & Housing Benefit Pensioner Admin Subsidy

126. London Government does not believe it is appropriate or acceptable to transfer the risk of future spending commitments that we are unable effectively to influence. Any transfer of responsibility must therefore be based on a realistic assessment of its in-built spending pressures and be accompanied by the corresponding devolution of policy control. As such, we are united with colleagues across the sector in our opposition to the responsibility for providing Attendance Allowance (or a similar such welfare benefit) being transferred to local government. We firmly believe this should remain centrally administered by the Department for Work & Pensions.

127. The government has provided no detail about how the new Attendance Allowance administration arrangements would work if devolved to local government or the levels of control and influence the sector would have over the scheme, or any evidence that the in-built spending pressures this would bring has been considered. This is disappointing given the size of the funding involved (£5 billion nationally), and the likely increase in demand for this benefit that will result from an aging population.

There is therefore no reason to suggest business rates as a funding stream, and local government as a sector, would be better placed to deliver this benefit than central government through general taxation.

128. In relation to the transfer of TfL's capital grant, which has already been agreed by government, it is important that the funding allocations set out in its 2015 Spending Review letter until at least 2020-21 are honoured. Within the rates retention system, the agreed annual increases to the capital grant should, therefore, be achieved by an offsetting reduction in the tariff payment made by the GLA and, under any future London governance model in which London pays continues to pay a tariff, through the aggregate tariff payment. It is also essential that the design of the new system should seek to minimise any adverse impacts on the credit ratings, funding stability or funding relationships of local authorities, the GLA and TfL.

Question 2: Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

129. London Government believes the following grants and responsibilities should be devolved to those areas that are ready and willing to take them on (subject to sufficiently robust governance arrangements being in place) as part of the business rates reforms:
   - Capital funding for Affordable housing;
   - Careers Service;
   - Skills funding for 16-19 year olds;
   - funding for the Work and Health programme; and
   - the Valuation Office Agency.

130. We would, therefore, welcome further discussions with government regarding the practicalities of delivering these.

131. London Government is aware the Valuation Office Agency (VOA) is currently partly funded from the Local Government Resource DEL (£161 million nationally in 2016-17). In order that the VOA is made more responsive and accountable to London Government for decisions and performance that directly affect the income and financial risk of boroughs and the GLA, we would favour the creation of a devolved Valuation Office for London – either as a separate administrative body or a regional office - which would focus solely on business rates and council tax valuations and appeals within London. This would ensure that the VOA was directly accountable to London Government (see section C above for further details) for its performance particularly in relation to the administration of appeals. As such, we believe the grant funding provided to the VOA from within the Local Government Resource DEL should be considered for transfer under the 100 per cent retention system. London's share of the £161 million would be roughly £50 million – which equates to less than 6% of the provisions set aside for appeals refunds by London billing authorities in their 2015-16 accounts.

Question 3: Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

132. London has a unique governance and administrative structure within England, being the only region with a regional tier of government. As such there are no combined authorities in the capital.

133. However, as set in section D above, London Government would favour moving to managing the distribution of business rates revenues on a regional basis in the capital alongside whatever package of devolved funding and responsibilities is ultimately agreed. This would facilitate closer co-operation between the capital's local authorities and ensure that resources are targeted more effectively taking into account local circumstances.

Question 4: Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

134. We believe the transfer process should prioritise those things local government as a whole has already said it wants. These are inevitably reflected in existing devo deals. For example, all existing deals include elements of skills and employment: it would be perverse not to fund these through business rates more widely.

135. We agree that the Adult Education Budget and transport capital grants should be included as they both have clear links to business and economic growth. TfL capital funding and bus services operators funding are already (or will be by April 2017) funded through business rates in London. However, we do not believe Local Growth Fund money should be included, as this is a finite resource for one off projects rather than funding for ongoing services. We believe the same principle applies to investment funds, which should therefore also be excluded.

136. London Government renews our ask for the devolution of the Adult Education Budget, as well as funding for the Careers Service and 16-19 skills, with agreement to be reached by the end of 2016-17 (ideally with a commitment made in the 2016 Autumn Statement). We envisage 2018-19 would be a shadow year with full devolution secured from 2019-20. This is subject to a resolution of our outstanding concerns in relation to the proposed changes to the Adult Education Budget funding formula which may be disadvantageous to London. Although limited detail has been shared on this to date by central government, we understand that the new funding formula for allocating locality budgets will redistribute funding across localities, resulting in a change to the average funding per head for the 19+ working population with a skills or employment need. We would therefore welcome dialogue with DCLG and the DfE as to how this budget might be devolved and what restrictions may be put in place in relation to the future use of this funding.

Question 5: Do you agree that we should continue with the new burdens doctrine post-2020?

137. London Government agrees that the new burdens doctrine should continue beyond 2020. Local government should be given access to adequate resources - either through central government funding or through additional tax-raising capacity – to deliver any new responsibilities or deal with changes of circumstance resulting in increased funding pressure on existing responsibilities (that would also constitute new burdens). We would envisage that these would initially be funded through s.31 grants, having been assessed as new burdens in the same way as now.

138. Whether these grants continue as separate funding streams or "rolled in" to funding baselines at future resets will be an important decision for any future government. London Government believes that, any new burdens that are rolled in to the system should be transferred with corresponding freedoms and flexibilities to raise the equivalent levels of funding, for example the power to vary the multiplier, or (if this is already permitted), further tax raising powers (in line with the recommendations of the London Finance Commission).

139. As set out above (Ask 4), London Government would wish to agree prior to the start of the 100 per cent retention system a process for negotiating and agreeing with central government any new responsibilities that are to be delivered in the capital.

CHAPTER 4

<u>Growth and redistribution</u>

Question 6: Do you agree that we should fix reset periods for the system?

Question 7: What is the right balance in the system between rewarding growth and redistributing to meet changing need?

Question 8: Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

140. As set out above (section D), London Government recognises that a balance must be struck between incentivising growth - by ensuring that growth (including revaluation growth) is retained for a meaningful length of time - and providing a sustainable level of resource for all local authorities to deliver services - by updating needs assessments regularly. We believe London Government should be able to determine that balance between risk and reward in London by being able to reset business rates and funding baselines for the authorities in the capital.

141. If government retains control over national resets, London Government agrees with the principle that reset periods should be fixed prior to the start of the 100 per cent retention system. Any alternative, whereby government changed the reset periods on an ad hoc basis, would cause too much uncertainty for local authority funding.

142. We believe that it is desirable, and should be possible, to reset needs (funding baselines) and resources (business rates baselines) on different timescales. On the funding side of the equation, it is desirable that baselines reflect changing levels of need on a regular basis – this is particularly relevant in London where population growth and churn is far higher than many other parts of the country. However, on the resources side of the equation, it is preferable to reset business rates baselines less frequently – in order to retain a strong growth incentive. The government should, therefore, explore resetting funding and business rates baselines on different timescales (and any devolved London system would explore these options).

143. However, within the resources side of the equation, we recognise that overly long reset periods could be problematic. Since developments can take a number of years to be agreed and built – often requiring existing buildings to be demolished – a long reset period (10-15 years for example) is logical. At the same time, we recognise the need to protect authorities that, through no fault of their own, see their business rates base altered significantly through the impact of a single large ratepayer or a one off economic shock, by resetting their business rates baselines within a reasonable time period so that they can regain the financial incentive to grow their rates income. We believe the government's suggestion of partial resets should therefore be explored further, and would welcome further detailed modelling to show how this could work, and the potential impact that different degrees of "partiality" would have on the system (i.e. varying the percentage from 50% proposed in the consultation). Again, any devolved London system would explore options around partial resets.

144. We would also favour business rates resets being aligned with revaluations, so that local authorities are able to predict revenues over a set period without further turbulence being introduced into the system.

145. Certainty and stability of funding is critical in relation to the delivery of transport and other major infrastructure schemes. For example, TfL modelling suggests that a 'steady state' level of c. £1 billion per annum of capital funding in real terms is likely to be required for renewals of the TfL network, together with c. £1.4 billion per annum for "normal" new capital investment to respond to anticipated increases in demand. It is therefore desirable that any system reset takes into account the impact on investment in infrastructure.

<u>Redistribution between local authorities</u>

Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

146. London Government agrees that the current system of tariffs and top ups should be maintained. The arrangements work relatively well and are broadly understood across the sector.

147. As set out above (section C), we believe a devolved London business rates retention system would benefit London and the rest of the country. Within such a system we would continue to equalise through tariffs and top-ups in the same way as the national system, however we would control to set business rates and funding baselines within London so that tariffs and top-ups balance to zero within London and, if London were to continue to pay an aggregate tariff, this would be paid as a share by all boroughs.

Impact of revaluations

Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

148. There is an inherent difficulty with the current system of revaluation in that it acts as a redistributive mechanism rather than being one which is responsive to changing absolute level rental values. In effect the total business rate take for England is fixed at whatever level the Government determines it should be rather than being a buoyant tax where revenues move proportionately in line with the growth in property values. A notable exception to this is the Crossrail Business Rate Supplement where revenues rise in direct proportion to the increase in rateable values – ensuring that those ratepayers benefitting from increases in property values as a result of infrastructure investment make a greater contribution towards its financing over time.

149. As set out in section C above, London Government believes the tax base should be allowed to rise or fall in response to changes in the economy, rather than to fit a pre-defined total. Breaking the link between revaluation and the fixed quantum of tax yield benefits both those areas where commercial property markets are strong and those where they are not. It would also prevent the capital's robust property market from continuing to distort the operation of the national system and to allow business rates baselines to increase outside of London at a rate which reflects local authorities' own economic investment and growth. As a result, the accountability and the relationship between local business and politicians will be significantly improved.

150. However, in the event that the current national arrangements are maintained, including the fixed quantum, London Government agrees that there should be an adjustment to retained incomes for individual authorities to cancel out the effect of future revaluations.

151. However, as set out above (section C, paragraph 77), because growth does not include revaluation growth local authorities see no benefit from investing in making their local areas more attractive as a business destination. London Government believes a proportion of revaluation growth should be retained at revaluations. This would reflect the fact that rising relative rental values and business rates income are also likely to be matched by relative increases in revenues from central government taxes – including stamp duty, income tax, corporation tax and VAT. In effect the Treasury sees the gains in tax revenue – but the relevant local authorities do not see the additional benefit in respect of business rates income.

152. This could be financed either using a proportion of central list revenues or via a top slice within the overall local government finance settlement.

Combined Authority Mayoral Areas – Additional Powers

Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

153. As set out at length in the first half of this response, London Government would favour moving to a fully devolved system with the Mayor and the leaders of the 33 local authorities taking over responsibility for the allocation and distribution of resources within an appropriate governance structure. It would be odd for the nature of the existing devolution arrangement in London to result in the Mayor and Leaders of London not having the same flexibilities (e.g. infrastructure levy) available to other mayoral areas. We therefore consider that London should receive at least the same additional incentives as will be offered to combined authorities outside London whether or not they have a Mayoral structure.

<u>Tier Splits</u>

Question 12: What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?

154. As set out above (section E, Ask 8) we believe the final split of responsibilities should determine the retention shares between the GLA and the boroughs within London.

155. The current 50% local share of business rates income is apportioned between the GLA and the 33 London billing authorities on a 40% to 60% ratio. This was subject to a local agreement between the GLA and London Councils acting on behalf of the 33 billing authorities. Indeed London was the only part of the country where a different tier split was negotiated and agreed with central government.

156. At the time of negotiation it wasn't known what the final balance of funding would be between the two tiers, which ultimately ended up at around 67%:33%. The GLA therefore became a tariff authority taking a higher share of London's rates income (40%) than the GLA's share of baseline funding within the system (approximately 33%). This has meant the GLA has taken on a greater level of risk if rates income falls albeit for greater potential reward if there is growth against its baseline – in recognition of its ability to spread upsides and downsides across all 33 billing authorities.

157. London Government considers that the tier split in the capital has worked relatively well – and provides a suitable starting point on which to build up to 100% retention, subject to addressing issues such as business rates appeals.

158. With effect from April 2017 – following the rolling in of the £960 million TfL capital grant and £148 million of the GLA's RSG – London Government supports the consequential 17% increase in the GLA's share to 37% and a reduction in the central share to 33%. The final tier split following 100% retention will be agreed by London Government taking into account the funding and responsibilities devolved to each tier.

Fire Funding

Question 13: Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?

159. London Government opposes transferring London's fire and rescue funding out of the business rates retention system in London. This need not prevent a different treatment in the rest of England, where responsibility for this function is being transferred to Police and Crime Commissioners in 2017.

160. It is our understanding from Government officials that any transfer in of the GLA's RSG in 2017-18 to the rates retention system would be subject to the proviso that this would not preclude any fire and rescue and policing elements being moved out of the retained rates system and paid for instead via Home Office grant in light of the transfer of responsibility for fire services to Police and Crime Commissioners outside London. The GLA is also unique in having an element of police funding within the rates retention system relating to MOPAC's notional share of the Mayor's council tax freeze grant allocations from 2011-12 onwards.

161. It is the Mayor of London's strong preference, however, that fire and rescue funding in the capital should continue to be paid through the rates retention system in recognition of the different administrative arrangements which will exist compared to the rest of England – even if fire funding in the rest of England is paid via Home Office direct grant. This would also facilitate better joint working across London Government including with MOPAC, TfL and the GLA if fire funding formed part of a wider Mayoral resource.

162. This different treatment would not in our view prevent the Home Office making redistributive changes to needs allocations for fire services as these could simply be adjusted for in the case of the GLA annually through a revision to its tariff payment either upwards or downwards with a corresponding transfer of funds between Government departments. Similarly the element of resources for London policing – approximately £35 million should in our view remain within the rates retention system – on the expectation that the Mayor would continue to pass this onto the Mayor's Office for Policing and Crime as is set out in the Mayor's proposed budget for the next three years. This relates to prior year council tax freeze grant revenues – and it is the Mayor who is responsible for setting council tax levels for policing in London outside the City of London.

Lessons Learned From Enterprise Zones

Question 14: What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

163. London Government is supportive of the principle of using enterprise zones and designated areas to provide the certainty of funding required to support large-scale infrastructure and transport projects. Such designations are being used effectively in London to date to finance the infrastructure needs of the Croydon Growth zone, the proposed new Thameslink station at Brent Cross in Barnet, the Royal Docks in Newham and the Northern line extension to Battersea Power station. The Government should continue to operate these areas outside the retention system in line with the statutory designations already approved by Parliament and ensure that no changes are made which might undermine those schemes already in place.

164. However, it is important to recognise that EZs hypothecate income that is therefore not available to be redistributed to meet needs. Under a devolved London retention system, London Government would expect to be able to decide collectively any future EZ-type arrangements to support specific infrastructure investment or other growth-promotion schemes – via the London growth redistribution pool if appropriate.

165. As mentioned above (Q10), we would also support the Government introducing a mechanism whereby local authorities were able to retain part of the growth in rates income at a revaluation while continuing to provide protection to areas seeing reductions in bills via the tariff and top up mechanism. Under the regulations in place enterprise zones and other designated areas are able to retain any revaluation related growth.

166. If a fully devolved London approach were not agreed, we would nonetheless encourage the Government to consider how the business rates retention arrangements for Enterprise Zones and other designated areas could be enhanced to allow full retention of stock as well as revaluation growth. This could include examining options facilitating the full capture and recycling of any land value uplift from transport and other infrastructure projects, which often cause significant increases to rateable values in their catchment areas. The Mayor is currently preparing proposals on land value capture for HM Treasury to consider for the 2016 Autumn Statement, and one of the principal reforms required to ensure the capturing of value uplifts from commercial property is full retention of revaluation growth. This could be piloted in designated areas and potentially rolled out more widely over time.

Sharing Risk, Appeals and Future Position of Central List

Question 15: Would it be helpful to move some of the 'riskier' hereditaments off local lists? If so, what type of hereditaments should be moved?

167. London Government considers that unless there is a clear and evident case for an assessment to be on the central list it should be on a local or regional list (as set out in section H, ask 14). This would improve local accountability with businesses and enhance the capacity and responsibility of local government to promote all types of economic growth within its area – and, within a devolved regional system – to share the risk of economic decline.

168. We would, therefore, oppose proposals that would, for example, move airport assessments such as Heathrow Airport onto the central list or indeed local power stations or other complex assessments. Planning functions will continue to reside locally and such assessments are also important sources of local employment linked to other supplies and the wider economic base of a locality.

169. We also note that in London requests for transfers to the central list were submitted in London in 2010 following the introduction of the Crossrail BRS – as business rate supplements and the proposed new infrastructure levy can only be charged on assessments on the local list. This strengthens the case for minimising the size of the central list to ensure ratepayers benefitting from infrastructure and transport projects locally are required to contribute towards their costs.

Question 16: Would you support the idea of introducing area-level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

170. As set out above (Ask 14), we believe a regional or area-level list could be appropriate in London. This clearly supports regional devolution, for which we are in favour, and would promote greater collaboration between TfL and the boroughs to incentivise growth for which the whole of London could gain if this was linked to a London wide pool. It could also, potentially, provide some capacity to manage collective risk through a regional safety net.

171. At present TfL's rail infrastructure network (e.g. London Underground, DLR, London Overground and in due course Crossrail) and stations (including station car parks) are on the central rating list either independently (LU and the DLR) or as part of the Network Rail cumulo. This means that all rates income and related growth is paid to the Government – rather than to London local authorities. Given TfL's capital investment grant is to be moved into rates retention, it would be logical for all TfL's assessments to be moved either to the local rating lists of the 33 London billing authorities or to a regional London list, so London can benefit from all of the business rates growth arising from the transport investment it makes.

172. There may also be an argument for separating out those parts of the Network Rail operational assessment which are now administered by TfL – for example TfL rail which will in due course become the Elizabeth (Crossrail) line and London Overground assessments – to be disaggregated and moved to a regional list.

Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area level (including Combined Authority), or across all local authorities as set out in the options above?

Question 18: What would help your local authority better manage risks associated with successful business rates appeals?

173. As set out above (section H), London Government believes risk should be managed at regional level for the capital – provided sufficient control over the system to manage the risk is devolved: if it were not, then some of the risk would have to be shared with central government. In a devolved London retention system, whereby London Government had control over setting business rates – administered by a regional VOA for London – we would expect to manage the appeals risk within the capital.

174. However, under a continued national system, we consider that appeals relating to errors made by the VOA – so called "tone of the list" appeals with an adjustment date going back to the commencement date of the list – should be funded centrally by the Government. 'Tone of the rating list' amendments to property valuations have nothing to do with physical changes on the ground and do not arise from local decision making – and the associated costs should not, in our view, be borne locally while central government retains oversight and responsibility for the VOA.

175. As part of its long term review of business rates the Government highlighted the difficulties which can arise when large numbers of appeals are lodged by ratepayers resulting in there being a large backlog. Ratepayers face delays in having their appeals assessed and local authorities face significant uncertainty under the rates retention system as a result of having to set aside significant sums in provisions in order to meet potential refunds to ratepayers which may not ultimately materialise.

176. The aggregate provision for appeals across all 33 London billing authorities as at 31 March 2016 exceeds £925 million. We remain very concerned that the current backlog of appeals on the 2010 rating list in London is significantly higher than the national average in both absolute and relative terms. Progress on reducing this backlog also appears to have been much slower in the capital particularly in central London.

177. As illustrated in Figure A1 below, the number of unresolved challenges at 31 March 2016 equated to 22 per cent of all hereditaments on the rating list in London – more than 50 per cent higher than the national average and nearly 250% higher than in Wales which operates its own revaluation and tax setting arrangements. In the City of London the number of outstanding challenges to the rating list at 31 March 2016 equated to 40 per cent and in five other boroughs (Harrow, Hillingdon, Tower Hamlets and Westminster) exceeded 30 per cent respectively of the total number of hereditaments in those areas (Figure A2). While there have been some reductions since that date, the refocusing of VOA resources onto the 2017 revaluation has meant that the backlog has barely moved in some billing authorities as further appeals have been lodged subsequently.

Figure A1 - Unresolved Appeals as % of Total Hereditaments on the 2010 Local Rating List (English regions and Wales) as at 31 March 2016

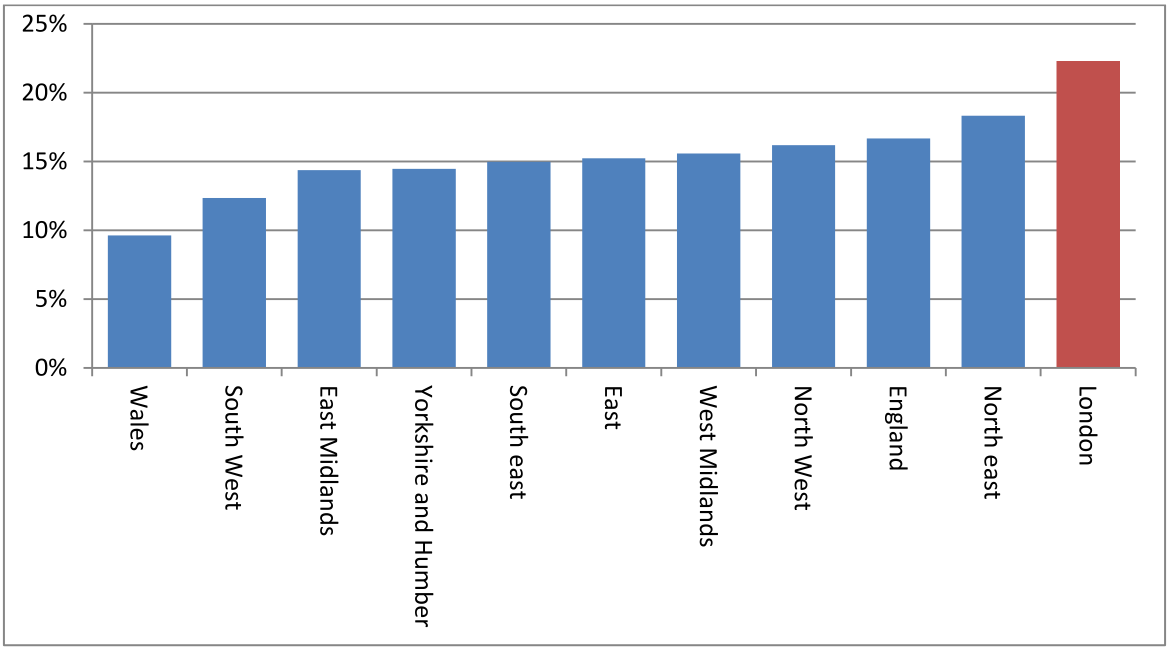
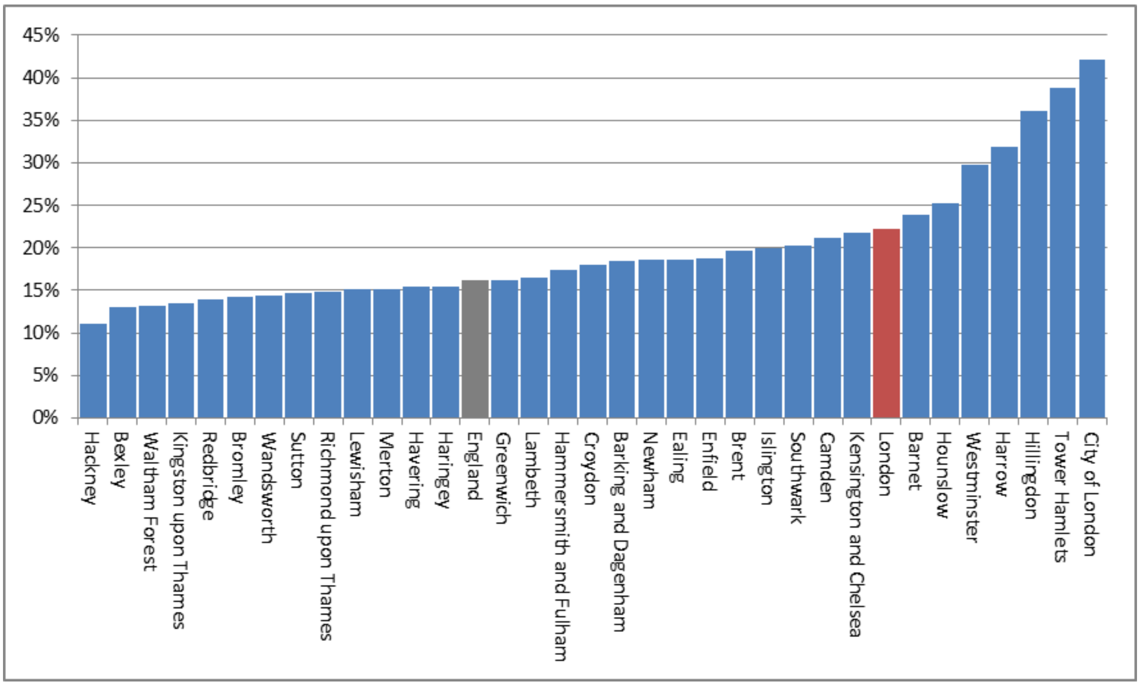


Figure A2 - Unresolved Appeals as % of Total Hereditaments on the 2010 Local Rating List (London Billing Authorities) as at 31 March 2016 – London Boroughs & England



Source: VOA Statistics
https://www.gov.uk/government/statistics/non-domestic-rating-challenges-and-changes-england-and-wales-march-2016-experimental

178. This backlog has both local and national implications given that the Corporation of London, the London boroughs of Tower Hamlets and Hillingdon and Westminster City Council – which continue to have amongst the largest backlogs in England as a

proportion of their rating lists – account for nearly 15 per cent of the national business rates tax take. Indeed at current levels of progress it is unlikely that the backlog in those billing authorities will be cleared before 2019-20 or later.

179. In advance of the introduction of the new 2017 rating list, we would urge CLG and HM Treasury as the sponsoring departments to ensure that the Valuation Office – working closely with the Valuation Tribunal and rating agents – seeks to prioritise clearing the outstanding rating appeals across London as at 31 March 2016 as soon as possible. This is essential in order to provide certainty both for the businesses appealing and for local authorities in setting their future budgets and determining realistic forecasts of rating income.

180. Similarly we consider that, for the 2017 revaluation period, the clearance rates for appeals should be consistent across all English regions and billing authority areas in the interest of fairness to ratepayers and local authorities. This means that any new targets set for the VOA must focus not just on the number of appeals outstanding but the materiality of the assessments under appeal i.e. any clearance targets should take into account the scale of rateable value being appealed. Any separate target relating to reductions in number of appeals outstanding should also have to be delivered in every local authority area rather than just nationally – with the Valuation Office Agency being required to publish the performance data at a local level

181. We trust that the Government will monitor the success of the new 'Check Challenge Appeal' system and consider making further reforms if it does not result in a reduction in the volume of appeals for the 2017 rating list.

Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?

Question 20: What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

182. London Government would favour introducing a devolved system and managing such risks as a regional level. However, as set out above, this is dependent on the level of devolution of control over the parameters of the system. In essence, the greater the degree of autonomy, the more reasonable it will be to expect London to manage its collective risk for itself. Conversely, the more London remains part of a national system, and the more limited its control of the taxbase, the more London should expect to look to Government to share some of that risk.

183. Under a fully devolved London retention system, therefore, in which 100 per cent of the rates were retained in the capital, London Government would expect to manage and fund the safety net mechanism. Under a system whereby London continued to pay a tariff to fund the rest of the sector, or where a national valuation system remained, we would expect to share the funding of a London safety net with the rest of the sector.

184. Within a devolved system, the level of income protection should be a matter for local determination. However, if a national system remained, we would support the retention of a national safety net mechanism set at a percentage of baseline funding. We believe the government should consider options whereby different tiers of authority may have different safety net thresholds depending on their gearing and service responsibilities, with protections to avoid authorities reducing rates income via changes to provisions deliberately to go into a safety net situation.

185. In the interim (before the start of the 100 per cent retention system), there is a strong argument for the safety net threshold (currently 92.5% of baseline funding) to be reassessed. As RSG reduces towards 2020, Baseline Funding will become a larger proportion of a local authority's Settlement Funding Assessment. Government should therefore consider whether the safety net threshold should be changed to 95% or another figure.

CHAPTER 5

Altering the Multiplier – Decision Making and Scope of Powers

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

186. London Government would want to explore the relative advantages and disadvantages of options for establishing a separate Mayoral rate alongside one for the 33 billing authorities (see section F, ask 9, above). The choice between such approaches should, ultimately, be a matter for London Government, but we believe the basic principle should be that the costs should align with accountability for the decision.

187. The Government should, therefore, design primary legislation which permits flexible local approaches with any detailed arrangements being a matter for secondary legislation which can evolve and be amended more easily over time.

Question 22: What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

188. London Government believes the powers to reduce the multiplier and to offer discounts are both potentially valuable, but as tools to address different issues.

189. Reducing the multiplier could (subject to tax competition concerns) be a way to address the overall attractiveness of the business environment in a given area – in a world where local government was retaining revaluation growth it could also offer a way in which business in general could share in the benefit of overall growth in business efficiency and success.

190. Discounts, on the other hand, offer more targeted tools to support particular sectors (for example to small businesses or charities) or local areas (for example high

streets) – or to incentivise broader policy objectives such as promoting public health or environmental sustainability).

191. London Government would wish to explore options for either a collectively agreed single multiplier across London, or two separate multipliers with the Mayor of London being granted the ability to set a proportion of the rate on a London wide basis, and boroughs collectively setting the rest of the multiplier. These two shares of the overall multiplier would be determined by the funding and retention split as set out above. We would want to explore the relative advantages and disadvantages of options for either a defined, periodically-reviewed split of income between the boroughs and the GLA, or for the establishing a separate Mayoral rate.

192. We believe London Government should have the collective ability to set the qualification criteria and thresholds of the existing mandatory reliefs currently set by central government (and the discretionary elements of those schemes), as well as determining new mandatory relief schemes periodically when deemed necessary. This would include the small business rates relief threshold. Where individual boroughs or the Mayor wished to offer additional discounts over and above a collective scheme agreement, this could be achieved through adjustments to their retained rates

Question 23: What are your views on increasing the multiplier after a reduction?

193. Under the proposals as currently set out, in order for local authorities to have the power to lower the multiplier, the Government will presumably need to set a baseline national non domestic multiplier, which authorities will vary their local rates against, to be uprated annually (presumably by RPI until 2019-20 and by CPI from 2020-21 onwards).

194. The consultation paper highlights the challenges that might arise were a local authority to decide to reduce its multiplier below the notional national multiplier but then determine at a later date that it wished to reverse this in full or in part. It is the view of London Government that this should be a matter for local decision and that authorities should be permitted to revert back to the national multiplier in a single financial year – irrespective of the reduction made in prior years.

Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

195. As set out above, London Government would also wish to explore options for either a collectively agreed single multiplier across London, or two separate multipliers with the Mayor of London being granted the ability to set a proportion of the rate on a London wide basis, and boroughs collectively setting the rest of the multiplier. A similar arrangement already operates successfully in Northern Ireland. These two shares of the overall multiplier would be determined by the funding and retention split as set out above. We recognise delivering this this would pose administrative challenges, but consider it desirable that there should be a legislative mechanism which facilitates a London wide approach to setting all or part of the multiplier

agreed collectively by the Mayor and boroughs. We would want to explore the relative advantages and disadvantages of options for either a defined, periodically-reviewed split of income between the boroughs and the GLA, or for the establishing a separate Mayoral rate.

196. The Government will also need to consider whether the Secretary of State should have intervention powers in exceptional circumstances – recognising that any safety net payment mechanism could be used to mitigate the effect of local decisions and that authorities would still need to meet their fixed tariff payments as now.

197. The Government will also need to consider what the implications the new system would have for NNDR reporting, accounting and budgeting – for example would there need to be a review of the NNDR 1 reporting timetable to facilitate an earlier tax setting process and, under a multi-tier approach, would preceptors with tax setting powers be able to determine their own business rates appeals provisions (as an example) and other deductions?

Infrastructure levy for Mayoral Combined Authorities

Question 25: What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?

198. London Government believes the levying authority should have the power to set the threshold – which may well vary dependent on the nature of the infrastructure project being funded. In practice, we consider that a £50,000 threshold in the current BRS legislation is appropriate in the capital for any levy introduced, however we would want to reserve the right to review this for future levy proposals.

199. To date only the Greater London Authority has used the BRS Act powers to finance £4.1 billion of the costs of the Crossrail project - £800 million as a direct contribution and £3.3 billion of borrowing which will be financed and repaid by the mid-2030s using BRS revenues. The Crossrail BRS has been set at a rate of 2p since April 2010 with a qualifying rateable value threshold of £55,000.

200. We recognise that, were there to be a similar blanket £50,000 threshold for the infrastructure premium, the sums that could be generated in BRS in areas with lower tax bases than London would inevitably be much lower. Lower thresholds may therefore be appropriate for other parts of England to ensure that the tax base is sufficient to raise an adequate level of revenues.

Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?

201. London Government considers – subject to the support of the business community – that the Mayor of London should have the ability to introduce a levy to fund a specific project in addition to the Business rate supplement which is committed for Crossrail until the mid-2030s.

202. We consider that the areas eligible to introduce the levy should be determined via secondary legislation so that the tax can evolve over time to changing local government structures.

203. In our view the BRS Act should be retained and expanded to include the ability to levy both supplements – where supported by business and, if necessary, the Secretary of State to fund a specific major project. This would, in our view, provide sufficient flexibility to allow the Mayor of London to operate both supplements where there was clear support.

204. We would have reservations about introducing a wholly new piece of legislation to deliver what is likely to be a similar tax in structure – the only practical difference being the mechanism by which the introduction of the supplement must be approved. There are also several pieces of existing secondary legislation which were required for the BRS relating to the accounting, administration and collection arrangements – which could equally be applied to the new levy.

205. If the Government decides to develop separate legislative arrangements for the new levy, there is a risk that there could be difficulties in maintaining and updating two separate legislative processes. London Government has, for example, experienced difficulties in securing amendments to the existing BRS regulations on a timely basis.

206. In our view, there should be a single piece of legislation building on the BRS Act 2009 and associated regulations with the proviso that no amendments are made which would undermine the existing Crossrail BRS, which is required to finance the repayment of £3.3 billion of GLA debt.

207. We would also support an amendment to section 10 of the BRS Act (http://www.legislation.gov.uk/ukpga/2009/7/section/10) to ensure that, where a levying authority opts to make a variation to the policies not set out in the final prospectus which merely result in a reduction in the tax rate or number of ratepayers liable to the BRS, this should not automatically trigger a ballot of ratepayers. The current wording has prevented the GLA from raising its £55,000 threshold for the BRS between revaluations as it did not foresee in 2010 that the Government would delay the next revaluation until 2017. Tax reductions should not trigger automatic ballots in our view.

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

208. London Government believes business rates devolution provides a real opportunity to promote greater accountability of local politicians for business rates decisions and build more meaningful engagement with the business community. The Government will also need to give consideration as to the mechanism by which the LEP should approve the introduction of a new levy. Subject to the proposals complying with the final prospectus approved by the LEP, the annual tax setting responsibilities should

in our view lie with the directly elected Mayor working in the context of London's governance arrangements

Question 28: What are your views on arrangements for the duration and review of levies?

209. We consider that the arrangements should operate on a consistent basis with the BRS – once the decision has been agreed by the LEP (subject to a review of LEP governance structures). The levying authority/Mayor should be required to report annually to the LEP and ratepayers – as applies to the BRS – but, unless there are any fundamental changes which are inconsistent with any final prospectus introduced before implementation, the annual review and approval of the levy should be a matter for the elected Mayor to determine.

210. In terms of the duration of any levy the Business Rate Supplements (Accounting) (England) Regulations 2010 as currently worded prevent a BRS being used for projects such as Crossrail where the payback/debt repayment period exceeds ten years. This needs to be amended for the BRS and reflected in the regulations for the new levy to ensure that longer term schemes can be funded via the new levy as well as the GLA's Crossrail BRS which have a debt repayment date of 25 years or longer. Mayors should also have the ability to extend the length of any levy if necessary through the publication of a revised prospectus subject to this extension being approved by the LEP.

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

211. The Government has stated that the new premium must be applied to fund 'new infrastructure'. The 2009 BRS Act requires that business rate supplement revenues must be used to support economic development priorities (i.e. revenue or capital) but explicitly <u>excludes</u> expenditure on:
    - Education and children's services
    - Social services
    - Delivering planning functions and
    - Housing

212. The legislation for the levy will need to be clear what authorities may use the infrastructure premium for. London Government would favour extending the 'infrastructure' definition to include projects which fund the provision of affordable housing in areas of high cost/high demand where there is support for this from the business community. It should also be able to be used to upgrade existing infrastructure as well as deliver 'new' infrastructure.

213. In relation to the need for medium and longer term certainty in relation to infrastructure funding the GLA and Transport for London would welcome a discussion as to how the future capital funding of London's transport network will

operate in future and how resources might be made available to support specific projects such as Crossrail 2.

214. If central government concludes that it is desirable to maintain the ability to reset the system at periodic intervals, then London and central government will need to agree a method of deriving the funding need for new capital investment in transport infrastructure across London's transport network. This will also need to include an agreement on how to fund the capital requirements for any future extensions of the existing network which cannot be covered through business rates as transport investment is by nature lumpy, discontinuous and significant in scale. For example, it would not be sensible to treat Crossrail 2 as part of the normal local government needs. And there are other examples of projects which are large or involve both local responsibilities in London and the national rail system

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

215. We believe it should be possible to have multiple levies funding different projects across the combined authority and/or London area, providing that the appropriate prospectuses have been consulted on and approved for each scheme.

216. A BRS must be levied on a consistent basis across the levying authority area and, therefore, it is not possible to apply a higher rate in billing authorities (or other defined localities) where ratepayers were most likely to benefit from the proposed investment (e.g. they have stations on the proposed rail, metro or tram link). This differs from the community infrastructure levy where differential rates are permitted within a billing authority and in the case of the Mayor of London's CIL between London boroughs.

217. There may also be a case to permit levying authorities to apply different rates for the levy across their area in proportion to the estimated benefits from the infrastructure projects being funded from the levy (e.g. for a transport project ratepayers in areas on the rail/tram route would pay a higher rate) as applies for the Community infrastructure levy.

218. This would need to be agreed collectively through London Governance/combined authority arrangements, but would ensure that those ratepayers who benefit most from any investment pay the largest contribution. This might also be a mechanism which could facilitate multiple projects being funded from the levy across an area – as otherwise it will only be practical to use it to fund very large regional schemes where there is a clear benefit right across London or the combined authority area.

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

219. We would welcome a dialogue with Government to see what lessons can be learned from the success of the Crossrail BRS in London before the new levy is introduced. We would also be keen to review the BRS Act and associated regulations to ensure

they remain fit for purpose and provide a solid basis to 'bolt on' the proposed new levy.

220. Other questions which the Government will need to consider include:

- Does the initial prospectus, consultation and final prospectus model for introducing a BRS provide a suitable model for the infrastructure premium?
- Should the levying authority be able to depart from its final prospectus variation powers without recourse to a further consultation process where it is simply proposing reducing the tax rate or the number of ratepayers liable?
- Should reliefs operate in parallel to NNDR on a pro rata basis and should empty properties and BID areas be eligible for a more generous treatment subject to the determination of the levying authority as applies for the BRS?

221. London Government considers that the BRS has worked well in London and the Government should seek to replicate similar arrangements for the new infrastructure levy – via a bolt on to the existing BRS Act rather than a completely separate piece of legislation. We endorse the initial prospectus, consultation and final prospectus model used for the BRS as a basis for the development of any future levies.

222. Before levying a BRS, levying authorities are required to prepare an initial prospectus - which prior to the localism act merely had to be consulted upon but thereafter had to be put to a ballot of eligible ratepayers – and a final prospectus. The items required to be included in the prospectus are set out in schedule I of the Act. A copy of the Crossrail BRS final prospectus is available at https://www.london.gov.uk/file/5474/download?token=oCSh_HNt

223. We also favour a consistent approach on reliefs between NNDR, BRS and the new levy. Reliefs for the BRS operate on a consistent and pro rata basis with ratepayers' national non-domestic rating bills with two exceptions. Firstly, the levying authority may exempt all empty properties as a class from paying the BRS – irrespective of their eligibility for empty rate reliefs – and, secondly, it may apply an offset to reduce the BRS liability for ratepayers in business improvement districts (BIDs).

224. The Act also permitted business improvement districts to charge property owners a levy subject to a ballot where local ratepayers were subject to a BRS (so called 'BRS-BID' levies under Schedule II). This latter policy has not been adopted so far in practice given the difficulty of identifying property owners although two BIDs in central London have expressed an interest in introducing such a scheme.

225. We would also support an amendment to section 10 of the BRS Act (http://www.legislation.gov.uk/ukpga/2009/7/section/10) to ensure that, where a levying authority opts to make a variation to the policies not set out in the final prospectus which merely result in a reduction in the tax rate or number of ratepayers liable to the BRS, this should not automatically trigger a ballot of ratepayers. London Government would also support a review of the accounting and year end reporting arrangements for the BRS set out in the current secondary legislation as well as

given local areas to agree different arrangements for apportioning cost of collection allowances to reflect the fixed costs which many smaller billing authorities incur. Details on these proposals have already been submitted by the GLA with the support of billing authorities.

226. Section 18 of the BRS Act requires the levying authority to give written notice to each billing authority in its area prior to the financial year for which it intends to impose a business rate supplement. Levying authorities are also required to provide an annual update to ratepayers for annual billing. This should be maintained and required for the new levy as well.

Ch.6 ACCOUNTING AND ACCOUNTABILITY

Balance of Local and Central Accountability

Question 32: Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

227. London Government firmly believes that devolution of funding and tax raising powers to fund the services local authorities deliver will improve local accountability – provided it comes with genuine devolution over control of those powers and of the services and responsibilities that will be transferred. Specifically in relation to business rates, a devolved London retention system would, in our view, strengthen the relationship between London government, businesses and local communities, and improve accountability of locally elected politicians to their electorates.

228. As set out in paragraphs 9-22, the current funding system breeds uncertainty; is too complex and lacks transparency; and is too centralised with a lack of local control. These issues must be addressed if local government is to be put on a sustainable financial footing over the long term, in a world where business rates and council tax will fund almost all local government services from 2020.

229. We welcome the recent multiyear settlement, and the degree of certainty this brings (although it is really only RSG that is guaranteed over the next 4 years, which is a diminishing part of the overall funding of local government). True multiyear, medium term financial planning will only be possible under the 100 per cent business rates retention system if reset and revaluation periods are set over time periods that provide funding certainty, and if local authorities are given greater freedom over other elements of the finance system such as the setting of fees and charges and council tax. The annual capping of council tax constrains one of the levers local authorities have over their ability to raise resources and restricts council tax setting policy to an annual timeframe.

230. The timing of settlements under the current system has proved a particular barrier to certainty. For the last four years, the settlement has been announced extremely late in December. While there may be reasons for this, and it may be helpful for central government, it creates significant uncertainty for local government over funding assurance needed to set their budgets and council tax levels for the following

financial year. We believe the new finance system should be set up to give local authorities as much time as possible in order to deliver robust budgets that have been through thorough scrutiny processes.

231. Specifically in relation to the timetable of the business rates retention system, the government should review the arrangements for completing NNDR1 (budget) forms (or their equivalent under the new system), which aren't sent out until January giving a very short time period for completion. In addition, deadlines for completing the NNDR3 (outturn) returns should be brought forward to late April/early May – the latter being essential to deliver on the earlier accounts closure timetable from 2017-18.

232. Greater certainty can only be achieved by less interference from central government. The recent legislation impacting on the Housing Revenue Account is an example of significant changes in government policy creating huge uncertainty in local authority budgets. Authorities had established long term (30 year) plans under the "self-financing" reforms, which were subsequently rendered meaningless as a result of the mandated social rent reduction and 'higher value void' levy. Genuine devolution must mean genuine relinquishing of central control.

Question 33: Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

233. London Government believes that the current imbalance of power between local and central government in control over local public services must be redressed. The London Finance Commission (2013) concluded that "London's government needs to be given greater freedom to determine and use the resources raised from taxpayers"[10]. It set out a vision of more accountable and sustainable way of funding public services. London (and, indeed, England as a whole) is an extreme outlier compared with other cities and countries, with only 7 per cent the taxes raised determined by the city's government: the equivalent figure in New York is over 50 per cent.

234. We believe the current default assumption, that Central Government must retain a high degree of control in the name of accountability, must be reversed and move instead to a world where local government is responsible for determining the level of spending and investment it needs to meet local priorities, and for raising the funding to meet that need. The primary accountability should be between local government and its electors and taxpayers. In short, decisions should be made as close as possible to residents and service users, and should be local by default.

235. The balance between national and local accountability should reflect the extent of devolution in each case. Greater devolution of powers will of course need to accompanied by stronger governance and accountability arrangements to ensure that money is well spent, and the best value is obtained for the ratepayer.

[10] Raising the Capital (2013): https://www.london.gov.uk/sites/default/files/gla_migrate_files_destination/Raising%20the%20capital_0.pdf

Accounting for Local Tax Income

Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

236. London Government believes the requirement to prepare a Collection Fund Account should be maintained. The Collection Fund Account brings transparency to the different payments that are made to distribute the rates collected by authorities. However, we consider that authorities should be able to use the collection fund adjustment account to manage variations in income including safety net payments to ensure that authorities do not end up building up artificially large reserves to meet future sums owed.

237. Under the current arrangement, any Collection Fund loss (or surplus) does not impact on the General Fund outturn until one or two years after they are incurred. Although this may be partly beneficial for authorities, as it allows them longer time to deal with the losses, it is not aligned with the system of levies and safety net payments, which are accounted for in the year of the loss/ surplus. This is then likely to mean that the authority has a high level of reserves set aside to fund the loss in future years as it impact on the General Fund bottom line.

238. We believe that the timing differences between the revenue and CFAA accounting treatments for unexpected variations in NNDR yield should therefore be harmonised.

Calculation of Balanced Budget Requirement

Question 35: Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

239. There is an argument for requiring local authorities to approve a financing requirement – including retained rates income - rather than council tax requirement, as this better reflects the reality of setting local council budgets, in which overall spending it set at a level to meet the resources available, rather than council tax being set at a level to meet desired spending. This would partially reverse the changes made through Part 5 Chapter 1 of the Localism Act 2011 – prior to that Act local authorities agreed a budget requirement including general government grants. This change would require consequential changes to the GLA Act and the London Assembly’s amendment powers in relation to the Mayors budget.

Collection of business rates data

Question 36: Do you have views on how the business rates data collection activities could be altered to collect and record information in a more timely, efficient and transparent manner?

240. London Government supports retaining the current NNDR1 and NNDR3 reporting arrangements – albeit the timetables for both should be earlier than now. The detail

as to how this will operate should be considered further by the Accounting working group in consultation with CIPFA and the IRRV.

Lewisham's response to the consultations on fair funding and the 100% business rate retention scheme - addendum

Lewisham is a vibrant inner London Borough, with a rapidly rising population, high levels of deprivation, and a small locally focussed economy. Rising population is a real signal of success for a place and a city (London's population was declining until the late 1980s), and while we should celebrate the fact that Lewisham is growing it does place stress on resources and public services.

We expect to see an additional 40,000 to 60,000 more people living here over the next 15 years, with around an additional 3,000 increase in population per year. As birth-rate is driving the growth in population Lewisham is becoming an increasingly young population and we expect to see and additional 7,000 people under 18 years of age by 2026. The ethnic composition of the Borough is changing: 67% of our 5-9 year olds and 76% of our school population are BME. This compares to a majority white British over 60s population. The overall population is currently 43% BME (and 59% non-White British), and this BME population will rise to over 50% by 2025. The North of the Borough is younger and more ethnically diverse compared to the South.

Lewisham (and London) is suffering a housing crisis. Although Lewisham has mid-table housing costs for London - our average rents are in the third quartile amongst London Boroughs - our private rented sector has doubled in a decade. Very little accommodation is available to Local Housing Allowance rates. Home ownership is high for an inner London Borough, but this is being impacted by increasing house prices (a 15% increase in house prices in 2015 alone). The income: house price ratio is now at an all-time high at 10.66; homelessness acceptances have risen to their highest level ever and our use of temporary accommodation use has become entrenched at 1,800 families a year.

The skills levels across the Borough are reflective of our inner / outer London position. We have lower numbers of people with degree level education and above than our inner London neighbours (54%), and higher numbers of people with no qualifications. Only 49% of students in our sixth forms go on to University (compared to the 68% of London jobs that require degrees). Low skills are concentrated in the South of the Borough.

Unemployment has reduced in the Borough, although we still have some of the highest rates in London. This is concentrated in a small number of residents with complex needs, or who have not worked for over two years (or have never worked). We have high concentrations of people claiming Employment Support Allowance (higher than most other London Boroughs) with mental health conditions.

This demography means that we have high costs of temporary accommodation, high numbers of families who have 'no recourse to public funds' and who need support, large numbers of children in need, children who need protection and looked after children. We also have high numbers of children with disability entering the adult social care system alongside an increasingly elderly population. This imposes a disproportionately high cost on the council which must be factored into any needs assessment, and baseline funding assessments in addition to population, deprivation indices and area cost adjustments.

We have responded to the fair funding review outlining these points in more detail.

Our low business rate base means that a local government finance system based wholly on business rates raises very serious concerns for the London Borough of Lewisham. Although the system of 50% retention has been in place since 2012, moving to 100% retention will leave places like Lewisham, with small economies, very vulnerable.

We have small amounts of commercial space in the Borough with more demand for commercial and office space than the existing supply. The commercial space we do have tends to be low value. We have a low business rates base, with our economy made up of predominantly small businesses and very few large or medium sized businesses. We have limited land supply and a booming residential land market which threatens to crowd out commercial space. Permitted development rights from office to residential further reduce commercial space. The exemption of very small businesses from paying any business rates will further reduce the overall business rates collected in Lewisham.

The issue of appeals, reliefs and fluctuations in the base from year to year mean that we have major concerns about how a London Borough like Lewisham could cope with a 100% business rate funded system. For these and other reasons we recognise the importance of a London wide pool for business rates retention as a way of mitigating the risks faced by any individual Borough. The pool will be able to distribute the necessary top ups and tariffs based on the Borough's needs (as determined by the national needs assessment), and ensure that monies are retained by GLA / London Councils for a safety net, with additional pots of funding to be distributed for funding change and innovation and for compensating Boroughs for their contribution to the London economy. From Lewisham's point of view this last point is crucial.

Lewisham's mission statement is to be the 'best place to live, work and learn' but in terms of the London economy, Lewisham's 'role' is predominately about providing relatively low cost housing for workers, providing skilled workers for the London economy, and providing relatively low cost business space.

Lewisham is part of the London economy; the majority of our residents travel out of the Borough to work either into the West End or the City. Lewisham's role in the London economy is vital. We house the London labour market. We provide good housing in places with high amenity value, good transport and good leisure facilities and green spaces. We have focussed on housing for a number of years and have a good record on delivering housing exceeding our London plan targets in recent years. We provide educated young people ready for the labour market: a vital part of the London economy. We are a Borough rich with green spaces, providing lungs for London.

For Boroughs such as Lewisham, we would argue that there needs to be additional incentives for economic development. As a Borough our economy is mainly one which services its locality – retail, hospitality and services. We also have an increasingly important creative and digital economy. Higher incentives to support drives for inward investment are necessary in order to:

- Balance the London economy
- Develop more locally sustaining communities with more local jobs and services to reduce the need for commuting/ transport
- Attract start-ups with lower commercial rental values.

We have such a low base of business rates that the nature of the incentive is critical to us. We believe that there should be higher rates of business rate retention for Lewisham to recognise the challenge of building from a very low base.

We will wish to be involved in the further consultation on these proposals as they develop.