

Committee(s): Finance Committee – For decision Court of Common Council – For decision	Date(s): 13 November 6 December
Subject: London Business Rates 100% Pilot Pool: Financial administration for Strategic Investment Pot	Public
Report of: Chamberlain	For Decision
Report author: Chris Roberts, Chamberlain's Department	

Summary

Under the agreed terms of the 2018/19 London business rates retention pilot, 15% of the net financial benefit of pooling – currently estimated at approximately £52m – is reserved for the Strategic Investment Pot (SIP), to be spent on projects that contribute to the sustainable growth of London's economy and business rates income, and which leverage additional investment.

The City Corporation is Lead Authority for the London Pilot, and so administers the SIP. Following a bidding and evaluation process, a consultation was carried out to ensure broad support across London Government for the projects supported. Following the consultation, the Policy & Resources Committee made the formal decision to allocate SIP funds to a number of projects.

The Court of Common Council delegated the arrangements for financial administration of the SIP to your Committee. This report details the arrangements proposed for making payments to accountable bodies, reporting on the progress of each project and the monitoring impact; and seeks authority for the Comptroller & City Solicitor to document the arrangements and the Chamberlain to enact them.

Recommendation(s)

Members are asked to:

- Approve the financial administration arrangements for the Strategic Investment Pot, as laid out in paragraph 6.
- Delegate authority to the Comptroller and City Solicitor, in consultation with the Chamberlain, to complete, make minor amendment to and execute the agreements with accountable boroughs for the SIP.
- Authorise the Chamberlain to make the payments required under the agreements up to the total SIP allocations agreed by the Policy and Resources Committee.
- Note that if the pilot is extended to 2019/20 there will be further SIP allocations made for the balance of any 2018/19 funds and the estimated 2019/20 SIP. If no changes are proposed to the arrangements, Officers will not seek further approvals to enact them in the same form once resources are allocated.

Main Report

Background

1. Under the agreed terms of the London pilot, 15% of the net financial benefit of pooling – currently estimated at approximately £52m – is reserved for the Strategic Investment Pot (SIP), to be spent on projects that:
 - i. contribute to the sustainable growth of London's economy and an increase in business rates income either directly or as a result of the wider economic benefits anticipated;
 - ii. leverage additional funding from private or public sources; and
 - iii. have broad support across London government.
2. The City Corporation act as lead authority for both the pooling and the operation of the SIP. The Town Clerk, the Chamberlain or the Comptroller & City Solicitor (as appropriate) were authorised by Court of Common Council, in consultation with the Remembrancer on matters of constitutional or legislative relevance, to take all necessary legal and practical steps for the establishment and administration of the pool and the strategic investment fund (now referred to as the SIP).
3. As Lead Authority, the City of London Corporation wrote to all London Borough Leaders inviting bids to the SIP. 22 SIP bids were received from 15 accountable boroughs for a total of £123.4m. A Panel of Chief Officers from across the London authorities and London Councils advised and recommended a package of eight proposals totalling £46.83m that drew an appropriate balance between the agreed criteria. The recommendations were supported by the majority of London government and the allocation decision has been taken by the Policy and Resources Committee (according to the delegation of the Court of Common Council), acting as the Lead Authority.
4. This report details the proposals for the financial administration arrangements.

Recommended Approach

5. In designing a proposal, Officers considered the framework for grants management used by the City Bridge Trust and sought advice from the GLA and London Councils (key partners in the management of the pilot scheme, as well as organisations with considerable experience of grant giving). Officers also consulted with Boroughs accountable for delivery of the projects, identifying a need to:
 - ensure that outcomes and match funding are achieved as set out in the proposal; whilst also
 - ensuring ease of administration to minimise the burden on those involved with projects (so they can focus on achieving the aims of the fund).
6. The proposal is to use a legal agreement between the City Corporation and the Accountable Borough for each bid. The key terms are:
 - a. formal, written commitment to the contents of the bid document submitted by the accountable borough,

- b. initial changes to be agreed by the SIP Panel, and further substantial changes to be agreed by the City Corporation following consultation with the pilot authorities (expected to be via Leaders' Committee).
 - c. initial upfront payment of 25% of the grant,
 - d. monitoring returns to be completed every quarter, including a narrative update in similar format to the bid document, and attached to further payments up to a ceiling of 95%, provided in proportion to the amount of money spent and proportion of project SIP funded, and
 - e. final report attached to the final 5% payment, confirming that commitments have been fulfilled and funds have been appropriately and fully spent.
- 7. The following sections outline the rationale for the approach outlined above.
- 8. **Documenting the agreement:** The SIP allocation is not detailed in the Memorandum of Understanding and so should be subject of a separate, formal legal document between the Lead Authority and the Accountable Borough. This also reflects advice received from London Councils and the GLA on best practice for administering a programme of this kind. A formal agreement will also ensure that there is appropriate oversight of accountable boroughs available on behalf of the other authorities in the pilot.
- 9. **Documenting the project:** Accountable Boroughs provided comprehensive narrative for the bids and it is therefore recommended that these, unedited, will form the key part of the documentation, this will ensure that Accountable Boroughs will only be asked to commit formally in writing to their own bid and no undue control is exerted by the City Corporation. This is important as the funds belong to all of the London authorities.
- 10. However, as part of the allocation, the SIP Panel recommended that some projects be offered a lower level of funding than they had requested in their bids. In these cases, there is an immediate need to provide for adjustment as part of the documentation. Accountable Boroughs will be asked to prepare any associated revisions required, and these will be agreed by the SIP Panel.
- 11. In addition, it is important to leave scope within the agreements for extension of the projects (such as to allow the use of additional funding if any is obtained or to add new partner authorities). The draft agreement allows extensions of scope but requires other significant changes to be agreed in writing following consultation with the London authorities.
- 12. **Monitoring and reporting on projects:** Evaluation will be carried out by Government, so it is important that there is objective evidence of impact. As administrator for the SIP, the City Corporation provides this function on behalf of the 34 London authorities participating in the pilot. In fulfilling this role, the City Corporation has a fiduciary duty both to the other authorities, and to London's ratepayers whose tax is being spent, but should not be a position to evaluate or control the projects. Authorities responding to the consultation indicated that it was important that Accountable Boroughs were held responsible for fulfilling the commitments in their bids.

13. A light touch approach is proposed, with a narrative form provided, but flexibility in format so that Accountable Body's own project monitoring arrangements can be used. This has the advantage of practicable within current resourcing. A summary monitoring report could be provided to the Leaders' Committee at London Councils to ensure transparency, and to consult where necessary.
14. **Payment of SIP funds:** Accountable Boroughs are ready to begin projects and require formal confirmation of funds so that they may begin programmes or paying third parties. It is expected that boroughs allocated funds will account for them as income as soon as the agreement is signed.
15. However, payment of the funds should link to reasonable assurances being received that conditions have been met, match funding is provided and outcomes are being delivered. The MOU provides clearly that the SIP may only be spent on projects as agreed between the London authorities, and it is important that the Lead Authority ensures this is the case. Retention of SIP cash will assist in providing assurance to the London Authorities that SIP funds are being used appropriately. This assurance will come principally from the monitoring activity carried out; but attaching a cash payment in arrears will ensure monitoring is seen to be meaningful.
16. London authorities hold significant balances relating to business rates and deal with large daily cashflows, so it is expected they will be able to manage payments and receipts in the short term. In addition, the MOU provides for benefits associated with the Lead Authority holding funds owned by the pool, requiring the interest received for these to be paid into the pool, and therefore interest on credit balances will be added to the SIP for future allocations. Ensuring that the majority of SIP funds are paid in arrears will mean that benefits are maximised and no Accountable Borough unfairly obtains additional treasury management benefits by holding significant SIP funds as projects are carried out.
17. Officers recommend that the agreement is structured so that after an initial payment of 25%, cash payments are broken down through the period of the project and provided on a formula basis in proportion to the level of SIP funding for the project and the spend incurred by the Accountable Borough to date, up to 95%, with a final 5% on receipt of the final report. The agreement has been drafted to ensure that payments could only be withheld in exceptional circumstances, and only in consultation with all London Authorities.

Financial Implications

18. The final amount available for allocation through the SIP will not be known until the 2018/19 accounts have been closed and audited. However, monitoring activity to date suggests that the level of business rates income expected is broadly on target. The SIP Panel therefore suggested that 90% of the forecast £52m be allocated and made available for spending now. This will involve spending these funds at risk, as changes to the economic environment or to the base of London commercial properties could mean these funds do not, ultimately become available. However, this is very unlikely as there is significant benefit budgeted and monitoring information to date suggests that London Business rates are approximately on budget.

Corporate Implications

19. Court of Common Council approved a post of up to one full time equivalent, funded from the City Fund, to fulfil the City Corporation's responsibilities in relation to acting as lead authority for the pilot. The proposed monitoring arrangements can be managed within this resource because they are 'light touch'.

Conclusion

20. The recommendations in the report to be the most efficient and effective method of balancing the competing objectives for the administration of the SIP, and to be deliverable within the agreed resourcing from the City Fund.

Background Papers

- January 2018, Court of Common Council, Report – Policy & Resources and Finance Committees Pilot Scheme for Business Rates Devolution in London
- October 2018, Policy & Resources Committee, London Business Rates Pool - Strategic Investment Pot

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