

Local Government Finance and EU Funding Update

Purpose

For information.

Summary

This report outlines the progress since the last meeting of the Board in the various work streams contained under the broad heading of local government finance and EU funding.

This report is for information only. Items that are considered elsewhere on this agenda, such as the LGA's "future finance" campaign and the LGA's Budget 2015 submission, are not included in this report.

Recommendations

That the Resources Board note the contents of the report and use the information to inform response to other items on this agenda.

Action

As directed by Members.

Contact officers:	Nicola Morton
Position:	Head of Programmes
Phone no:	020 7664 3197
E-mail:	nicola.morton@local.gov.uk

Local Government Finance Update

Local Government Finance Conference 2015

1. This took place on 6 January 2015. This was the day before the previous meeting of this Board and due to print deadlines it was not possible to provide a written update at that meeting.
2. The conference was well attended by both senior finance officers and members, and had a range of speakers from both local and central government, and from outside the public sector.
3. Sessions ranged from a technical discussion of the contents of the draft Settlement, to a round table discussion with representatives from the local authority treasurers' societies, to speeches from both Kris Hopkins MP from the current government, and Hilary Benn MP from the opposition. The conference received good coverage in the trade press.
4. Full details and slides from all speakers are available to all LGA members on the LGA's website.

2015/16 Local Government Finance Settlement

5. The previous meeting of this board considered the LGA's response to the draft Local Government Finance Settlement. The final settlement was laid in Parliament on 3 February 2015.
6. Following sustained lobbying by the LGA, the final settlement included an additional £74 million for upper-tier authorities over and above what was included in the draft settlement. This is non-ring-fenced funding but in the settlement announcement this was highlighted as money to support pressures in "welfare and social care."
7. The LGA produced an on-the-day briefing paper for the draft Settlement, and detailed briefings to inform debates in both the House of Commons and House of Lords on the final settlement. The LGA was mentioned in Parliament over 40 times across the two debates. The LGA's briefings are available on the LGA's website.

Independent Commission on Local Government Finance

8. The background of the Commission is covered in previous reports to this Board. The Commission published its final report in February 2015. The report sets out a 10 year programme for financing English devolution, which includes local control over council tax and retention of 100 per cent of business rates for all councils. In addition, it calls for place based budgets covering all local public services, initially for "Pioneer" areas, which could be city regions or non-metropolitan areas. The Commission's expectation is that over the next 10 years place-based budgets, and greater fiscal devolution will apply to sub-national areas covering the whole of England.

9. The LGA's strategic response to the Commission's findings was outlined in a paper to the LGA Executive on 5 March. The paper set out some areas where there is a difference between the Commission's recommendations and current LGA policy. This board will, in the "LGA lines" report elsewhere on this agenda, be asked to agree the LGA's response on these areas.

Business Rates Consultations

10. The LGA has responded to the Government's business rate avoidance discussion paper and the interim report on the review of business rate administration. The avoidance response draws on the results of a survey the LGA conducted of its members in late 2014, and the administration response looks forward to the promised more fundamental review of the structure of business rates. The full responses are available on the LGA's website.
11. Her Majesty's Treasury issued [Terms of Reference and a discussion paper](#) on the business rates review on 16 March 2015. The deadline for responses to the discussion paper is 12 June 2015. The LGA has begun work on its response and lead members of this Board will have an opportunity to comment on this.

Public Health 0-5 Transfer

12. On 1 October 2015, commissioning responsibilities for 0-5 public health services will transfer from NHS England to local government. This marks the final part of the overall public health transfer which saw wider responsibilities successfully transfer to councils in 2013. The LGA is supporting councils to be prepared for the transfer and are involved in national negotiations.
13. Following an engagement exercise between NHS England and local authorities to establish funding for 0-5 services for 2015 -16, the Department of Health published final funding allocations for the majority of councils in February. For a very small number of councils discussions are ongoing at local level to resolve outstanding issues on contracts and overheads; we expect their final allocations to be published shortly. Final funding, as a result of the concerns raised by the LGA, included an extra £2 million across councils to fund new commissioning responsibilities which will be a recurring cost from 2016-17.
14. The plan is for funding from 2016-17 to move towards a needs-based formula and the Advisory Committee on Resource Allocation (ACRA) has launched a consultation to seek the views of councils on this. The LGA will continue to argue that the formula needs to be fairer and based on local needs, and that substantial extra funding may be needed in coming years to get local authorities to their target funding allocations quickly. The LGA has secured wording in the draft regulations that makes it clear there is no expectation of uplifts in performance for councils at the point of transfer.

Municipal Bonds Agency

Equity raise

15. The Local Capital Finance Company now has sufficient equity capital pledged by nearly 60 Councils and the LGA to continue into full launch. It has therefore become an independent entity and is proceeding towards issuing its first bond, while continuing to raise equity to take it towards the £8 million - £10 million identified in the revised business

case. In order to reward shareholders, encourage further investment and take the Agency on another step towards the stated ambition of attracting the widest shareholder base within the sector, the Company, with the strong support of the Project Board, has decided to give priority for borrowing to shareholders and charge a premium on borrowing to non-shareholders. The Company believes that it would still be cheaper for a non-shareholder to borrow from the Agency than, for example, from the Public Works Loans Board.

Project Board

16. With the Company now moving into full launch and becoming an independent entity, the task of the Project Board is complete. The Company however wishes to retain the services of a technical sounding board, and the representatives of the five Treasurers Societies, currently sitting on the Board will fulfil this role. In the longer term, it has been agreed that the shareholders should meet to discuss future arrangements.

Board Appointments

17. Following a rigorous selection process two additional Directors have been appointed, bringing the total to three: Sir Merrick Cockell as the Chairman of the Company and Adrian Bell, formerly the Chairman of RBC Europe Limited and now the Head of Debt Markets for Canaccord Genuity in London, as Vice Chairman join Michael Lockwood on the Board. To bring the Board up to strength there will be a requirement initially to appoint three more non-executive directors:
 - 17.1. Someone who brings financial expertise gained through experience in the financial services sector;
 - 17.2. Someone who brings senior executive experience and with connections from HM treasury; and
 - 17.3. Someone who brings finance experience gained as a section 151 officer.
18. This recruitment is being conducted through the executive search firm Korn Ferry.

Changes to Articles of Association

19. The Articles of Association set out how the company is run, governed and owned. The articles can put restrictions on the company's powers – which may be useful if shareholders want comfort that the directors will not pursue certain courses of action, at least without shareholder approval. The articles therefore are very important for ensuring that the company remains committed to its original purpose and philosophy. During the mobilisation and early launch phases of the Agency, the articles gave the LGA 75 per cent of voting rights in order to control the development of the Company. Now that the Company is an independent entity with a wide shareholder base, this is no longer appropriate. The articles will therefore be amended to put LGA shares on an equal footing with those of other shareholders, but with one important exception. In order to prevent a particular shareholder interest group forcing through a change in the company that could be to their advantage, but to the detriment of the sector as a whole, the LGA will retain a power of veto over the appointment of directors and changes to the Articles of Association. It is important to note that these veto rights are only there to ensure that the Agency retains the characteristics envisaged in the revised business case and does not fall under the control of a small group of investors to the detriment of the sector as a whole. It is envisaged therefore that they would only be used in exceptional

circumstances. In addition in order to comply with the Companies Act 2006 and be able to issue securities on the public market, i.e. issue bonds, the Agency will be reregistered as a public limited company. This will also involve a change to the Articles.

EU Funding 2014-2020

Background

20. European Structural and Investment Funds (ESIF) support the economic, social and environmental needs of member states through funds (grants) and financial instruments (loans and equity investments).
21. LGA lobbying in Whitehall and Brussels secured a commitment from Ministers to devolve spending decision for England's £5.3 billion of ESIF allocations for 2014-2020 to 39 Local Enterprise Partnership (LEP) Areas.
22. LGA representatives on the ESIF Growth Programme Board (GPB) (Cllr David Sparks - LGA Chair, Cllr Sir Albert Bore - Birmingham and Cllr Ian Stewart - Cumbria) have led lobbying efforts to ensure local areas: (a) have a far greater say in the design and delivery of England's ESIF allocation; and (b) are adequately resourced to carry out activities within the programme.

Recent developments

23. A recent ministerial decision (Lord Ahmad, February 2015) to limit local partner's role to that of an 'advisory' body, means local partners will not have any formal powers to actually select which local projects get funded through ESIF – this power will rest officially with Government Departments (Communities and Local Government and Work and Pensions Departments).
24. The LGA Chair has written to Lord Ahmad of Wimbledon and The Rt Hon Eric Pickles MP Secretary of State, plus other ministers to set out our disappointment over the decision and highlight the unintended consequences on growth (see www.local.gov.uk/european-and-international). A response from Lord Ahmad to the LGA Chair is attached (see **Appendix A**). A full LGA response will be drafted shortly.
25. The LGA has also mobilised a multifaceted push to directly lobby government for a reversal of this decision. The LGA Public Affairs team have submitted a Parliamentary Question (PQ) via Baroness Bakewell of Hardington to press Ministers on a review of ESIF governance arrangements. The LGA Brussels Offices are working closely with MEPs in the European Parliament to keep them well briefed on this issue. Whilst the LGA Press Team have also issued a media release on this issue and secured coverage in the Financial Times.

Future work

26. The LGA is considering its own informal review of local authorities' views on the first procurement round to support our lobbying work, together with further work to establish how other EU member states are devolving powers on European funding.
27. The most recent meeting of the ESIF GPB took place on 19 March 2015. The Resource Board will be provided a verbal update on progress with LGA lobbying, plus any relevant new information that emerges.

Next Steps

28. Members are asked to note the contents of this report; and use the information herein to inform their response to the other “finance” items on this agenda.