

Leaders' Committee

Local Government Finance update: Business Rates Devolution, London Finance Commission & Autumn Statement 2016

Item 5

Report by: Paul Honeyben **Job title:** Strategic Lead: Finance, Performance & Procurement
Date: 11 October 2016
Contact Officer: Paul Honeyben
Telephone: 0207 934 9748 **Email:** paul.honeyben@londoncouncils.gov.uk

Summary

This report provides an update to Leaders' Committee on a number of recent important developments relating to local government finance.

These include the Government's business rates devolution reforms – including London Government's joint response to the consultation on 100% business rates retention and the Fair Funding Review call for evidence.

At the same time, the Mayor of London has reformed the London Finance Commission which will set out the case for further fiscal devolution to the capital with the intention to influence the Chancellor's Autumn Statement, which will be delivered on 23 November. London Councils will be making a representation to the Autumn Statement by the 7 October deadline, and the report outlines a summary of the themes this will cover.

Recommendations

Leaders are asked consider the contents of the update report and to comment on any of the specific items covered.

Local Government Finance update

Introduction

1. This report updates Leaders' Committee on the significant developments in the world of local government finance that have occurred over the summer and are on the near horizon. One way or another the changes will have a significant impact on the funding of London local government and the services it delivers from 2020 onwards if not before.

Business Rates Devolution

2. Over the past year, London Councils and the GLA have been working closely to develop a joint response to the Government's plans for 100 cent business rates retention by 2020, first announced in October 2015.
3. In December 2015 Leaders' Committee agreed a set of overarching ambitions for the potential devolution of business rates to London, and established a small member working group to oversee the development of proposals.
4. The Government committed in the March 2016 Budget to "explore with London options for moving to 100% business rates retention ahead of the full roll out of the business rates reforms." Officers from London Councils, the GLA and the Society of London Treasurers have been attending a series of technical working groups at DCLG since April.
5. In June, Leaders' Committee and the Mayor of London agreed a set of principles setting out a joint London Government response to the planned reforms that were formally submitted to the Chancellor of the Exchequer and the Secretary of State for Communities and Local Government on 1st July.

100% Business Rates Retention: Consultation response

6. In July, the Government published a detailed consultation on the proposed reforms, focussing on elements of the design of the scheme that will require primary legislation – likely to be in early 2017. This covered four main areas:
 - devolution of new responsibilities that local government will be required to deliver;
 - system design – finding the balance between incentivising growth and sharing risk;
 - local tax flexibilities – including the ability to reduce the multiplier and the proposed "infrastructure levy"; and
 - accounting and accountability considerations.

7. The joint London Government response was signed off by the Mayor and Group Leaders and submitted on 26 September, alongside a further letter to the Secretary of State. It develops the principles agreed in June and sets out a clear vision for a devolved London business rates retention system, including 14 specific asks of government. A draft summary of the response was considered by Executive on 13 September, and CELC and SLT at their respective meetings on 16 September. The full response and a shorter summary document were circulated to Leaders on 26 September.
8. The proposals are ambitious, and seek to address two fundamental issues with the current system: the negative impact of business rates appeals, which currently impedes growth and makes funding unstable; and the premise that revaluations should be to a fixed yield nationally – seeking for London’s business rates to be de-coupled from the rest of the country, to prevent economic growth in the capital artificially constraining business rates growth across the rest of the country.
9. London’s proposals, as set out in the fourteen “asks”, would help address these problems in ways that would not only help London manage its future sustainable economic growth, and the financial sustainability of its local public services, but would benefit local government in the country as a whole. It argues a more devolved approach could improve clarity and accountability.
10. The proposals include a commitment to work with Government collectively to build on the principles established in the 2013 London Finance Commission to define and establish appropriate governance arrangements to manage a devolved business rates system. The Leaders business rates working group met for the fourth time on 22 September, and, following initial discussions, began to identify the issues that will have to be addressed and discussed further with all Leaders and the Mayor in order to develop such governance arrangements.
11. Officers from London Councils, the GLA, and several individual London Treasurers and Chief Executives met with senior DCLG civil servants on 20 September to discuss the proposals set out in the response. DCLG welcomed the joint proposals and their level of ambition, while acknowledging that some of the arguments relating to the tax itself will require further detailed discussions with HM Treasury colleagues.

Fair Funding Review: Call for evidence response

12. Alongside the main consultation, the Government officially began its Fair Funding Review of needs and redistribution that will run until at least 2018, the outcome of which will

inform the setting of funding baselines at the start of the 100 per cent business rates retention scheme from 2020.

13. The response, circulated to Leaders on 26 September, set out high level principles that London Government has espoused, namely that the assessment of need and redistribution should become simpler, more transparent, fairer and more responsive under the new system than currently. In line with Ask 6 within the main consultation response, it proposed a two stage approach to the assessment of need, with a simplified formula determining a regional assessment for London, followed by a necessarily more technical local solution to the distribution of funding, to be designed and agreed by London Government.
14. A further detailed consultation is planned for the autumn, and a final detailed consultation has been earmarked for the summer of 2018. Figure 1 below sets out the likely timetable for the reforms required in order to set up the 100 per cent retention system from 2019-20 - the date the Government is provisionally aiming to start the new system.

Figure 1 - Likely timetable for reforms towards 100% Business Rates Retention

Date	Milestone
June 2016	London Business Rates Proposition submitted
July 2016	100% Business Rates Retention consultation
	Fair Funding Review call for evidence
September 2016	2017-18 LGF Settlement consultation
Autumn 2016	Fair Funding Review - consultation on principles of need assessment
	BRR - technical consultation on specific workings of the reformed system
	Autumn Statement to confirm details of pilots in 2017
January 2017	Legislation enters Parliament
April 2017	2017 Revaluation; Pilots begin; TfL grant transfer to the GLA
April 2018	Further roll-out of pilots
Summer 2018	Final Fair Funding Review consultation
April 2019	Earliest possible date for full roll out of 100% retention

London Finance Commission

15. The Mayor of London has re-formed the London Finance Commission (LFC), which originally reported in 2013 setting out bold proposals for fiscal devolution to London Government including full devolution of the 5 main property taxes (including 100% of business rates). Leaders' Committee and the Mayor of London endorsed the recommendations. The 2016 LFC aims 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, with an interim report to government in early October designed to influence the Autumn Statement.

16. Professor Tony Travers of the London School of Economics is once again chairing the Commission. It met for the first time in August, and has met twice in September. London Councils is represented on the Commission by Cllr Kober, Cllr O'Neill, with John O'Brien and Guy Ware acting as official observers, and among those supporting Professor Travers in his work.
17. It is likely that the recommendations of the Commission will be more ambitious than in 2013, recognising the changing macro-economic and political circumstances in light of June's EU referendum result. This may provide an opportunity for London Government to make some significant asks of the new Chancellor in his first Autumn Statement. London Councils and GLA officers will support the Commission specifically on its business rates recommendations, and more broadly on further proposals around wider fiscal devolution.

Autumn Statement Submission

18. The Autumn Statement will be on 23 November. With the uncertainty caused by the vote to leave the EU referendum, there are indications that the Chancellor will consider a "reset" of the public finances, which could mean changes to the Government's overarching fiscal rules and, in particular, the aim to deliver a budget surplus by the end of the decade. Whether there will be any change to the planned public spending reductions set out in Spending Review 2015 is not yet known, however it is unlikely to mean changes to the four year "offer" to local government that was set out in the 2016-17 Local Government Finance Settlement.
19. By the time Leaders' Committee meets, London Councils will have submitted its representation to HM Treasury by the deadline of 7 October. The submission will again set out the economic case for the Autumn Statement to continue to invest in London's public services, and will specifically cover the following three areas:
 - the latest funding outlook for London local government;
 - the specific demand pressures London local government is facing – including but not limited to updated projections relating to adult social care, housing, and school places, and the new or unfunded burdens London local government is facing; and
 - the case for further fiscal and functional devolution drawing on the work mentioned above on business rates devolution, the work of the London Finance Commission, and broader devolution negotiations London government is undertaking with government.

Recommendations

20. Leaders are asked consider the contents of the update report and to comment on any of the specific items covered.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None