

London Business Rates Pilot Pool 2018-19 proposal

Introduction

1. The last Government committed to local government retaining 100% of business rates by 2020 and begun piloting elements of such a scheme in 2017-18 in 6 areas, including the GLA in London.
2. The London Devolution Memorandum of Understanding, announced in the Spring Budget in March, committed to working with London “to explore options for granting London Government greater powers and flexibilities over the administration of business rates. This includes supporting the voluntary pooling of business rates within London, subject to appropriate governance structures being agreed”.
3. Further discussions with civil servants prior to the General Election suggested the Government was keen to explore a significantly expanded London pilot from April 2018, based on a voluntary pool, that would receive the same kind of benefits as the existing pilots in 2017-18 in Greater Manchester, Liverpool City Region, the West Midlands, West of England and Cornwall.
4. The Conservative election manifesto committed to “give local government greater control over the money they raise and address concerns about the fairness of current funding distributions”. However, the Queen’s Speech on 21st June did not include provision to re-introduce the Local Government Finance Bill that would have paved the way for full retention of business rates by 2020. At the time of writing, the Government has indicated that it remains committed to the objective of giving councils greater control over their income, but has not yet provided any clarity over whether that objective will be achieved through greater rate retention as previously envisaged, or whether it intends to continue piloting approaches to rate retention. If there is any further development, a verbal update will be given at the meeting on July 11th.
5. Pilots of the kind envisaged before the Election could be pursued without primary legislation. In the event that the Government wishes to continue to explore a potential voluntary pilot pool in London in 2018-19 in line with the Memorandum of Understanding agreed in March, London Government would need to be in a position

to agree its approach in principle at the Congress of Leaders in October, following consideration of the issues within boroughs and the GLA over the summer.

6. In the absence of clear policy direction from Government, this report does not seek to provide the basis for substantive debate or approval by Leaders on 11th July. Rather it briefly reiterates the principles for how a pilot pool could operate on a basis comparable to that of the existing pilots in Greater Manchester, the West Midlands and elsewhere, as set out in reports to Leaders Committee on March 21st and Congress Executive on 29th June. It asks Leaders to note that we will shortly circulate a “draft prospectus” to Leaders and the Mayor for consideration over the summer, in order that they can be in a position to debate options and indicate in-principle support for a pilot pool in October, should the Government renew its commitment to developing the policy of increased business rate retention.

Rationale for a pilot pool

7. Leaders’ Committee received a report following the Budget in March 2017, which set out the broad rationale and potential financial and strategic benefits of partaking in a pilot as then envisaged. In the event that such a pilot pool were available, it could bring both a financial incentive – through the early reduction of levy payments and access to 100% retained growth – and provide a limited opportunity to address some policy issues, possibly including:
 - greater flexibility around mandatory reliefs;
 - defining powers to agree “local growth zones”;
 - flexibility for the Mayor to use any new supplementary levy powers for housing purposes; and
 - transferring some central list assessments to a regional “London list”.
8. A pilot on the lines of those currently operating in other areas would not in itself address the full range of powers outlined in London’s joint business rates proposition to Government, but participating in a pilot could also enhance Government’s view of London’s willingness and capacity to take on broader devolution of fiscal and service responsibilities.
9. Existing pilot pools benefit from a “no detriment guarantee”, as a result of which it would be possible to ensure that no participating authority could be worse off than it

would otherwise be under the existing system of 50% retention. Any aggregate growth in London would then produce net financial benefits. Given that participation would be voluntary, and in recognition of the fact that all boroughs and the GLA contribute to London's overall economic success, it is further assumed that any financial gains would be distributed in such a way as to ensure that all partners receive some share of the benefit directly.

10. The basis of that distribution would be a matter for unanimous agreement amongst boroughs and the Mayor. Discussions with Leaders, both through the Executive and informally with Group Leaders, have identified four objectives that could inform the distribution of such gains:

- **incentivising growth** (by allowing those boroughs where growth occurs to keep some proportion of the additional resources retained as a result of the pool)
- **recognising the contribution of all boroughs** (through a per capita allocation)
- **recognising need** (through the needs assessment formula); and
- **facilitating collective investment** (through an investment pot designed to promote economic growth and lever additional investment funding from other sources).

11. Setting the appropriate balance and weighting within any distribution model for these four objectives would be a key question for London Government to consider.

12. It is proposed that – on the basis of current understanding and the approach adopted in existing pilots – a draft prospectus is circulated to Leaders and the Mayor. This would set out:

- the founding principles of a potential pool agreement,
- options for allocating the financial benefits; and
- governance and administrative arrangements for operating a potential pool

Interaction with the “Fair Funding” review

13. The Government previously announced that the national implementation of 100% retention will be underpinned by a “Fair Funding” review of needs, which will

recalculate councils' "funding baselines". Before the General Election, the Government intended to consult on detailed proposals during Summer 2018, for implementation in April 2019. Following the General Election, civil servants have confirmed that the Government will press ahead with this important work; however, no overall timeline for implementation has been set out.

14. Within the 100% business rates retention system as anticipated prior to the Election, the impact of that review of needs would be to redefine the funding baselines against which boroughs top-ups or tariffs are calculated. Participation in a pilot pool will not affect the outcome, or London's ability to contribute to that review in any way. As and when new needs assessments are calculated they will be used to define each borough's funding. Whether a pool continued to operate at that stage would be a matter for London Government.

15. London Councils and the GLA have been fully involved in the joint DCLG/LGA working groups supporting the business rates retention and fair funding policy developments, and will continue to seek to ensure that London's interests are reflected in the proposals that emerge.

Duration

16. Even if the Government remained committed to implementing 100% retention in full nationally, the previous deadline of 2019-20 is now unrealistic as there will be no Local Government Finance Bill within the next two years – although both piloting and significant changes to the national level of retention could potentially be achieved through secondary legislation. If the Government wishes to pursue this approach, there is, therefore, a potential opportunity for a pilot pool to run for more than one year. However, as with other existing pools, participation would be entirely voluntary and members would be given the opportunity to give notice to leave before each financial year.

Timetable

17. A 2018/19 pilot would require agreement with Government at or around the Autumn Budget – likely to be in November 2017. This, in turn, would necessitate initial agreement in principle at the meetings of the Leaders' Committee and Congress of Leaders on 10th October 2017 on the basis that each authority had been consulted

and had either previously authorised that decision to proceed with participation in the pilot, or that their authority's Leader had been given delegated authority to do so. The proposed draft prospectus – based on current understanding of the likely basis of operation of any potential pilot pool – will be circulated to Leaders and the Mayor. This will form the basis for internal consideration and discussion within each of the 34 prospective pooling authorities over the summer, in order for each Leader and the Mayor to be in a position to consider each authority's in principle position about the pool and to indicate this at the Congress of Leaders on 10th October, in the event that the Government wishes to pursue a pilot pool in London.

18. A final detailed pooling agreement would then be negotiated with DCLG, with the likely deadline being the time the Local Government Finance Report is published in February 2018. Respecting the tight timeframes for the pilot's commencement in April 2018 and the likelihood that an agreement would need to be reached with the Government in the Autumn, it is probable that further local decisions required from the 34 prospective pooling authorities relating to the legal framework to be implemented, could follow in the intervening period but all these matters would need to be resolved in a timely manner prior to April 2018 to allow for implementation.

19. Clearly, we will notify Leaders of any potential change in approach as and when the Government's intentions become clearer.

Recommendations

20. Leaders' Committee is asked to note:

- the uncertainty around the Government's future approach to 100% retention intentions;
- that a draft prospectus for a potential pool based on such information as is currently available will be circulated to Leaders and the Mayor as a basis for consideration over the summer; and
- the need, should the Government agree to continue piloting 100% retention, to be in a position to indicate in-principle support for a pan-London pilot pool by the Leaders Committee and Congress of Leaders on 10th October 2017.

Financial Implications for London Councils

None

Legal Implications for London Councils

Establishing a business rates pool in London will require each authority participating in the pool to agree to do so; and to also agree the terms upon which they will participate jointly with other members, including to appoint a lead authority as accountable body for the pool and to decide how the pool should operate. While the legal framework for the operation of the pool is yet to be determined in consultation with the authorities and the Government, should the London local authorities each resolve to delegate the exercise of their relevant functions to a joint committee, such as Leaders' Committee, this would require the Leaders' Committee governing agreement to be formally varied which requires the agreement of all 33 authorities for the variation to be effective. Experience has shown that it can take up to 18 months for 33 authorities to take their local decisions and then to negotiate and agree the terms of a formal variation to the London Councils governing agreement and to execute that document. Therefore, London Councils and its 33 member authorities will need to have regard to this in taking their own local decisions and in progressing the actions arising noting the timetable proposed for implementation of the pilot as set out in the report.

Equalities Implications for London Councils

None