

Executive Committee

The future of the London Business Rates Item 6 Retention Pilot Pool

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Date: 10 September 2019
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Summary

London authorities and the GLA have successfully negotiated business rates retention pilots for 2018-19 and 2019-20, generating an estimated aggregate financial benefit of £568 million to invest in future economic growth and support vital local services.

Planned reforms of the business rate retention system are now highly unlikely to be implemented in April 2020, and an early decision by both Government and London local government will be required if the pilot pool is to be extended for a further year, or a non-pilot pool is to be established.

This report outlines the options available and seeks the Executive's support in pursuing formal negotiations with Government, together with a steer on the report to be presented to Leaders' Committee on 8th October.

Recommendations The Executive is asked to consider the contents of the report and:

- a) agree the proposal to submit a letter to Government formally seeking the extension of the pilot pool to 2020-21, subject to subsequent endorsement by Leaders' Committee on 8th October;
- b) comment on the desirability of pursuing a London pool in the absence of a pilot agreement, providing a steer for the report to Leaders' Committee.

The future of the London Business Rates Retention Pilot Pool

Context

1. In advance of the Government's planned introduction of 100% Business Rate retention, London negotiated a 100% Retention pilot for 2018/19. The pilot involved all London Boroughs, the City and the Greater London Authority pooling business rate income, collectively retaining all of the growth above anticipated baselines and paying no levy on that growth. The additional resources retained (see para 5) were to be distributed according to a formula agreed and set out in a Memorandum of Understanding between the London Local authorities and the Mayor, and approved by Government. The pool is administered by the City of London Corporation, as Lead Authority.
2. Following the fall of the Local Government Finance Bill as a result of the 2017 General Election, the Government planned to introduce a 75% retention scheme across the country in April 2020, as part of broader reforms to the Business Rate Retention system, and in parallel with the Fair Funding Review. For 2019/20 it therefore agreed to extend the London retention pilot, but at the lower retention level of 75%.
3. Given the current political situation, and the recent confirmation of a one-year Spending Round, it is at the time of writing this report almost certain that the planned reforms will not go ahead in April 2020. Officers from London Councils, the GLA and the City (as Lead Authority) have therefore been exploring with civil servants the possibility of, and process for, securing a further extension of the London pilot in 2020-21. In order to secure that possibility, the London Councils Spending Round submission highlighted the issue and asked Government to commit to considering an extension. This was intended to ensure that the appropriate resources are earmarked by Treasury, but does not commit either London or Government to a renewed pilot at this stage.
4. In agreeing to the original pilot, Leaders' Committee stipulated that the pool should not continue for more than two years without a positive re-endorsement from London authorities. As was the case for the original pool, this decision will need to be taken by each authority individually. In order to effect that through council decision-making timetables, it will be important to get an early steer from Leaders on whether they are willing to commit in principle to renew the pilot, should Government agree, or to establish a pool without pilot status if it does not.

Benefits of the pilot pool

5. As reported to Leaders Committee in June, the financial benefit of the 2018-19 100% retention pilot pool was £397 million. Under the terms of the Memorandum of Understanding - which

sought to balance elements of population, relative need, reward for growth and investment in future growth - this was distributed as follows:

- a) London Boroughs and the City of London Corporation - £216 million
- b) Greater London Authority - £122 million
- c) Strategic Investment Pot (SIP) - £59 million

6. In response to the first round of application, Leaders and the Mayor agreed to allocate £47m of the SIP to projects which plan to generate more than 4,000 new jobs, almost 20,000 new superfast broadband connections and over 22,000 sqm of business floorspace.
7. The 2019-20 75% pilot pool was originally forecast to generate a further £171 million in additional net benefit this year, giving an estimated aggregate benefit over both years of £568 million. Subsequent estimates from a number of boroughs suggest that the eventual benefit will be higher. It is anticipated that further investment in growth projects of around £40 million will be made through the Strategic Investment Pot, building on the £46 million already allocated in 2018-19. Bids for the second round are currently being developed, to be submitted by 4th September; evaluation, consultation and formal decision-making will be completed by December.
8. In advance of confirmation of future Revenue Support Grant, borough baseline funding levels and future growth rates, it is hard to model future financial benefits of pooling with great accuracy. However, if Government and London agrees to continue the pilot pool on the current basis in 2020-21, it is reasonable to assume that the net benefit would be in the region of £200 million.

Pooling without a pilot agreement

9. If the Government does not agree to continued pilot status, it is assumed that London would return to the *status quo ante*, in which Boroughs retained 30%, the GLA 37% (following its agreement to retain higher levels of business rate growth in exchange for transport capital grants) and 33% passes to Government for redistribution to local authorities via grant. In this situation, London authorities could consider pooling under the existing national arrangements. These allow groups of authorities to seek designation as a pool: retention rates would be unchanged and a levy on growth still payable, but the effect of combining authorities can be to reduce the overall levy paid by a pool in comparison to the aggregate levies payable by individual authorities.
10. Continuing to pool without pilot status could retain the administrative arrangements currently in place for a year pending the introduction of the reformed business rate system in April 2021, and could signal London's continued commitment to collective administration of tax revenues in line with the broader ambitions for fiscal devolution set out in the London Finance Commission in 2013 and 2017.

11. Based on the forecasts at the start of this year a (non-pilot) pool of all London authorities could produce a net financial benefit of approximately £24 million. Distributing this according to the existing agreement would allocate around £3.6 million to the SIP, £7.3 million to the GLA and £13.1 million to the boroughs. Current income projections from boroughs suggest that these figures will rise, and the overall benefit could be up to £40 million.
12. The existing pilot pool is based on the principle – underwritten by the scale of the financial benefits – that no participating authority would be worse off than it would otherwise be. In a straightforward, “non-pilot” pool it may not be possible to offer such a guarantee. If Leaders are minded to explore options for a London pool in the absence of a pilot agreement, it would therefore be necessary for the Committee in October to consider the risks as well as the financial and other benefits such a pool could bring.

Next steps

13. As noted above, the Spending Round submission formally signalled London Councils’ interest in a potential extension of the retention pilot. Subject to the views of the Executive, it is recommended that a joint letter from London Councils and the Mayor be submitted as soon as possible to Treasury and MHCLG Ministers, setting out the arguments for and potential scope of a continued 75% retention pilot for 2020-21, subject to subsequent endorsement by Leaders’ Committee.
14. Given the timetable and political circumstances, even if the Government were minded to agree an extension of the pilot, it is unlikely that there will be significant appetite or capacity for significant changes in the basis of the agreement for 2020/21. However, it is recommended that the proposal seeks to explore some of the issues we have previously raised, including the transfer of TfL properties from the Central List, the accountability of the Valuation Office Agency (VOA) to London local government, flexibility around current mandatory reliefs and a higher than 75% retention level in return for piloting bespoke levy arrangements aimed at creating incentives to pool under the proposed new national system.
15. A report to Leaders’ Committee on 8th October, will set out the position in relation to the pilot and the options available in the absence of an agreement with Government. The report will:
 - a) Seek Leaders’ in-principle agreement to pursue a pilot pool agreement with Government; and
 - b) In the even that no such agreement is possible, seek Leaders’ views on the desirability of pursuing a London pool without pilot status.

16. As was the case for the original pilot, it should be noted that Leaders' Committee cannot make a collective formal decision to pool: each council will need to make its own individual decision to participate, and to delegate appropriate powers to the Lead Authority in accordance with an updated Memorandum of Understanding. However, a clear steer from Leaders' Committee in October will be essential in helping boroughs prepare for that decision-making process.

Recommendations

17. The Executive is asked to consider the contents of the report and:

- a) agree the proposal to submit a letter to Government formally seeking the extension of the pilot pool to 2020-21, subject to subsequent endorsement by Leaders' Committee on 8th October;
- b) comment on the desirability of pursuing a London pool in the absence of a pilot agreement, providing a steer for the report to Leaders' Committee.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None