

Borough Leaders
cc Borough Chief Executives
Borough Treasurers

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Date: 10th November 2017

Dear Leader

London Business Rates Pilot Pool 2018/19

I am writing to update you on the above topic.

At Leaders' Committee in October we supported, in principle, the establishment of a London Business Rates Pilot Pool for 2018/19.

The elected officers of London Councils – Teresa O'Neill, Ruth Dombey, Peter John, Catherine McGuinness and myself – were charged with taking the in principle agreement forward to arrive at a core proposition for the operation of the pool and to continue discussions with both the Mayor and ministers on this.

The elected officers discussed this both later in October and earlier this month and a number of you will have been consulted about the work we were doing via the party groups.

Whilst, of course, formal decisions will need to be taken by individual councils in the coming months, it has been very important to establish a high level of confidence that the in principle agreement will translate into full participation by the Mayor, all boroughs and the City of London Corporation in order that we are able to offer the Government the assurance it would require to factor such an agreement in to its preparations for announcing the Provisional Local Government Finance Settlement in the coming weeks.

As you are aware, the Government has indicated support for developing a 100% business rate retention pilot pool in London for 2018/19, subject to London establishing robust governance arrangements for dedicating a significant share of the additional resources to promoting future economic growth.

Following our discussions, I can now confirm that we will be seeking an agreement with Government that would cover the following areas:

- **Pool principles:** as set out in the updated draft prospectus circulated in September and reported to Leaders' Committee in October¹, the pool would be voluntary, but include all London authorities; London would retain a greater share of business rates in exchange for Revenue Support Grant; a "no detriment guarantee" would ensure that the pool could not be worse off than the participating authorities would have been collectively if they had not entered the pilot pool; no "new burdens" would be transferred to London and participation in the pilot would not affect the development or implementation of the Fair Funding review (currently anticipated in 2020/21). Public Health and Improved Better Care Fund grants would not be rolled in initially, but we would work towards including them if all parties were to agree to continue a pilot into 2019/20.
- **Distribution:** All authorities would receive at least as much from the pool as they would have under the existing 50% retention scheme. Any additional net benefits of the pool – currently estimated to be approximately £240 million in 2018/18 – would be distributed on the following basis:
 - 15% to reward growth
 - 35% to reflect population
 - 35% to reflect Settlement Funding Assessment
 - 15% set aside for a "Strategic Investment Pot" (see below)

The resources not top-sliced for the investment pot would be shared between the GLA and the boroughs in the ratio 36:64, in accordance with the principle previously agreed by London Councils and Mayor in our joint business rate devolution proposals to Government in September 2016. An indication of the sort of potential outcomes that could be realised based on the current estimate of an aggregate net additional benefit of £240 million in 2018/19, is set out in Annex 1 to this letter.

- **Governance of the strategic investment pot:** The pot would be dedicated to projects that contribute to the sustainable growth of London's economy, and which attract match funding from other private or public sources. Following legal advice, decisions would be taken formally by a lead authority in consultation with all member authorities, reflecting the principles set out in our draft prospectus and reported to Leaders' Committee in October. It is envisaged that decisions would be taken bi-annually to coincide with meetings of the Congress of Leaders and the Mayor.
- **Evaluation:** Government has indicated that it would undertake a qualitative evaluation the progress of any pilot agreed, based on the current research programme for the existing business rate retention pilots, with additional focus on the governance and scale of resources dedicated to strategic investment. It is anticipated that the combination of the GLA share and the Strategic Investment Pot (including the match funding it will attract) will make up approximately 50% of the net additional benefits arising from the pilot pool. We understand that the scale of the resource dedicated to strategic investment would be a particularly important issue in discussions with Government, which has indicated a desire to see a significant share of the resources available applied for this purpose.

Next steps

If a final agreement is achieved, the Government would prepare a "designation order" establishing a London pilot pool and would reflect this in the Provisional Local Government Finance Settlement in December. If any authority were then to decide to opt out within the following 28 days – that is, by mid-January – the pool would not proceed.

¹ <http://www.londoncouncils.gov.uk/node/32689>

As set out in the draft prospectus, we would also require an agreement between the boroughs, City of London and the Mayor of London by which London Government collectively decides how to operate the pool and distribute the financial benefits.

Each authority would need to take the relevant decisions through its own constitutional decision-making arrangements. London Councils has engaged legal advisers to prepare the necessary documentation and provide support to boroughs in managing this process between now and mid-January. We will write to Chief Executives shortly with more information on this.

In the meantime, I would like to thank you for your support in helping us reach a collective position that has brought us this far, and look forward to being able to confirm a successful completion of the discussions with Government in the coming weeks.

I am copying this letter to Chief Executives and Borough Treasurers.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'Claire Kober'.

Cllr Claire Kober
Chair

Annex 1

2018/19 Business Rate Retention Pilot Pool:

Distribution of 2018/19 benefits based on current estimate of aggregate net additional benefit

	15:35:35:15
	£m
Barking & Dagenham	2.8
Barnet	3.7
Bexley	2.8
Brent	4.9
Bromley	2.9
Camden	5.7
City of London	8.2
Croydon	4.3
Ealing	4.4
Enfield	4.2
Greenwich	3.9
Hackney	4.6
Hammersmith & Fulham	2.6
Haringey	3.7
Harrow	2.4
Havering	2.5
Hillingdon	5.4
Hounslow	3.4
Islington	3.8
Kensington & Chelsea	2.2
Kingston upon Thames	1.7
Lambeth	5.3
Lewisham	4.3
Merton	2.4
Newham	6.2
Redbridge	3.2
Richmond upon Thames	1.7
Southwark	6.0
Sutton	2.1
Tower Hamlets	8.0
Waltham Forest	3.4
Wandsworth	3.9
Westminster	3.8
London Boroughs	130.4
GLA	73.9
London subtotal	204.3
Investment pot	36.0
London Total	240.3