

PUBLIC ACCOUNTS SELECT COMMITTEE		
Title	Lewisham's response to the Government's proposals on business rate reform	
Key Decision	No	Item No. 4
Contributors	Head of Corporate Resources / Head of Strategy	
Class	Part 1	Date: 22 September 2016

1. Summary

This report updates the Committee on the important proposals for changes to the funding of local Government, and seeks input into the proposed response to the call for evidence on needs and distribution.

2. Purpose

- 2.1 The Government has launched two consultations on the change to business rate
- Self – sufficient local Government: 100% business rate retention
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535022/Business_Rates_Retention_Consultation_5_July_2016.pdf
 - Business rate reform: call for evidence on needs and distribution
- 2.2 These consultations, together with the intention stated in the Budget 2016 of a 100% business rate retention pilot in London, represent important changes to local government finance. This report:
- updates members Of the Public Accounts Select Committee on the proposed changes to the business rate retention scheme, and the London Councils/ GLA proposals for a London wide retention scheme
 - presents for comment the Councils' proposed response to the Government consultation on local authority need and distribution
 - presents for information the London Councils' response to the Government consultation on 100% business rate retention scheme

3. Recommendations

- 3.1 That the Committee comment on the proposed response to the consultation on need (attached as Appendix One)
- 3.2 That the committee notes the progress of the GLA / London Councils' proposals on a system of 100% retention of business rate and the London Councils' response to the Government's business rate consultation (Appendix Two)

4. Background

4.1 Proposed reforms to the business rate retention system

Local government will be totally self-financing by 2020. Revenue Support Grant will be abolished, 100% of business rates devolved, and local authorities will be expected to

take on additional responsibilities with the extra net funding these changes will bring. In London TfL capital grant has already been confirmed as an additional responsibility, and consideration is being given to transferring the responsibility for support for people who currently receive attendance allowance, housing benefit administration for pensioners, public health grant and a wide range of other duties.

The system is based on 100% retention of business rate so there will need to be a system of top-up and tariffs in the new system to redistribute the rate income. This is important for Lewisham as we have a very low business rate base, and will require a top-up of £45 M to maintain our funding at today's rate. A summary of the 2015 Lewisham business rates base is provided at Appendix 4.

At the budget 2016, the Government made permanent the temporary small business rate relief that had been introduced a year earlier. Clearly this will benefit small businesses greatly, and during the transitional period the Government is compensating councils for the loss of income. In the new system this will reduce the overall tax base by £1.5bn which will reduce the range of functions that can be transferred. For Lewisham this is particularly impactful, as we have an unusually low number of medium and larger businesses, and three quarters of businesses will be below the threshold and pay no business rate at all. This will make us as a Borough even more reliant on the top-up system as we will lose over £2million from our base.

Further changes to the system include moving from uprating by RPI to CPI in 2020 which will further reduce the business rate base.

The Government has just opened a consultation on the operation of the new business rate system which closes at the end of September. It has at the same time opened a fair Funding Review- which will assess the need in local authority areas and reset the baseline funding figure. This too will close in late September. The new Mayor of London has ratified the approach taken by the GLA/ London Councils and has written to the Secretary of State to reaffirm London's ambition for business rate retention in London.

4.2 Current system of retention

A business rate retention scheme already exists. Introduced in 2013/14 London sees 50% of business rate collected by London Boroughs pooled centrally by Government and used to fund RSG and specific grants. The remaining 50% is split between the GLA (20%) and the local billing authorities (30%). The equalisation system sees 25 Boroughs receiving a top-up (including Lewisham) and 8 paying a tariff to Government. The system currently broadly balances, with 10% of the 'excess' rate being used by Government to support the rest of the country.

Any business rate above the baseline is split between central Government, GLA and the local authority with tariff authorities paying an additional levy capped at 50p in the pound. For those that don't achieve the target there is a safety net and authorities cannot lose more 7.5% of its funding in one year.

London Councils have argued that the system insufficiently incentivises growth as there is little growth in rates retained by individual boroughs. They also argue that the forthcoming revaluation in business rates will cause concerns between London Government and London businesses as the increase will largely go to central Government to be redistributed in the rest of the country.

4.3 Consultation on the needs and distribution in the new business rate system

The assessment of the relative needs of local councils is a fundamental part of the reforms to business rates. Alongside the 2016/17 Local Government Finance Settlement, the Government announced the Fair Funding Review that will conduct a thorough review of what the needs assessment formula should be in a world in which local government spending is funded by local resources not central grant.

To help shape the Fair Funding Review, the Government has been engaging with representatives from across local government through a technical working group.. The Government wants to give local government every opportunity to consider the best approach to measuring their relative needs. The needs assessment does not require legislative changes to implement. This means that decisions do not have to be made now, and allows work to progress with local government to a different timetable. The Government is aiming to consult on the principles for the needs assessment in the autumn 2016, and expects to have a final consultation on the formulae in the summer of 2018. This will allow a new mechanism to be in place in time for the introduction of 100% business rates retention across local government by the end of the current Parliament.

The use of formulae to distribute grant funding to local authorities can be traced as far back as the 19th century. However, until advancements in computing in the 1970s, the scope for basing grant formulae on detailed statistical analyses was very limited. Formulae necessarily relied on a substantial element of judgement, though they were generally based on objective data.

Since the 1970s, analysis has been carried out to try from time to time to ascertain which indicators should be used to distribute funding, and how much weight one indicator should be given compared to another. Over recent years, funding formulae have become increasingly complicated in attempting to capture as many possible factors that may have an influence on local government spending.

The consultation asks questions on which indicators and factors should be included to adequately model 'need', questions on incentivisation of behaviours and combined authorities. An interesting point is made about how to deal with authorities differing ability to raise income, and how to deal with increase in growth in business rate and council tax base between resetting periods.

The draft Lewisham response to the consultation is attached as Appendix One.

4.4 London Councils / GLA Proposals for a London pilot of 100% business rate retention

Budget 2016 announced the intention to explore with London options for moving to 100% business rate retention ahead of the wider business rate reform. London Councils is working with the GLA to develop this scheme. They have developed a set of principles for a London pilot, from which an operational model would be developed.

These principles have been agreed by London Councils and the GLA and have been presented to Government as the basis of the London pilot. These are consistent with the London Finance Commission principles and proposals from 2013.

- 100% retention does not mean that each individual authority keeps all the rates it collects. Top-ups and tariffs will be needed but these could be operated at a London level. The excess rate income could be dealt with through additional/differential responsibilities. The proposal is that either London retains 100% of business rates and takes on additional responsibilities, or that a set proportion of rates are fed back into the national system.
- The GLA / Boroughs split should form the basis of an agreed set of responsibilities for each body. Alternatively a set Mayoral rate could be set.
- The Government will only allow a reduction in business rate, but the proposal identifies the intention to seek control over other key elements of the way business rates operate.
- Much of the growth in business rates in London is due to higher rental values not increased business floor-space. London wants to manage future revaluations in London.
- The resets of business rates and need should be managed at a London level rather than a national level. Central London does have specific issues- population churn, day time population and visitor numbers not currently included in need analysis. However population growth will be the major factor in resetting needs base. The Government's needs review in 2017/8 will be the base of any future system and the consultation on this has just been released.
- Top-ups and tariffs in the system are based on the amount of business rates collected and the funding baseline. The Government is reviewing the way relative need is funded. London's population increase is the key pressure on funding. London Councils/ GLA wish to be able to vary funding within London to reflect specific London issues- housing need, population rise and specific London cost pressures.
- Additional responsibilities should be aligned to policy requirements of London and enhance the devolution ambitions of the city. It should also recognise unfunded responsibilities such as 'no recourse to public funds', and should include the devolution of policy control.
- There is a recognition that London as a whole is a complicated system with different parts of the city having different but related and supportive roles. It is proposed that support to non-business functions such as leisure, transport and housing should be funded from the proceeds of growth. London therefore wants to devise a distribution scheme to reward the Boroughs' and GLA contribution to overall growth.
- London proposes that a safety net is devised to cover the risk of business rates income falling. The degree of risk that London is willing to accept (in business rates falling) should be related to the degree of autonomy London gets (i.e. the more autonomy the more the expectation that London manages the risk).
- Proposals will have to be developed on the Governance of the devolved business system. The GLA/ London Councils have already identified another set of principles for the governance system.
 - All elements of London government should have a stake
 - No exclusions of Boroughs or groups of Boroughs

- No overriding or deadlock situations
- Enforcement of decisions
- Simplicity and clarity
- Stability but ability to reform
- Practical
- Decision rules defines

London Councils, working with the GLA, is developing a detailed joint response to the DCLG *Self-sufficient Local Government: 100% Business Rates Retention* consultation. It is proposed that this builds on the principles agreed in June to spell out a set of “asks” of Government that would be necessary to implement those principles in full. Appendix Two presents a draft summary of those asks by London Councils/ GLA. Appendix Three presents the draft consultation response by London Councils / GLA.

The consultation is open and asks for comments on broad proposals rather than the Government’s preferred options at this stage. It focusses on areas of the business rates retention system that will specifically require new legislation (likely to be in early 2017). This includes:

- Devolution of responsibilities
- The business rates system: rewarding growth and sharing risk
- Local tax flexibilities
- Accountability and accounting.

5. Financial implications

This is a draft response to a Government consultation and there are no direct financial implications.

6. Legal implications

This is a draft response to a Government consultation and there are no legal implications.

7. Crime and disorder implications

This is a draft response to a Government consultation and there are no crime and disorder implications.

8. Equalities implications

This is a draft response to a Government consultation and there are no direct equalities implications.

9. Environmental implications

This is a draft response to a Government consultation and there are no direct environmental implications.

Background documents and originator

Note of relevant background documents and the name and full direct line number of an officer who can be contacted for further details.

For further information contact David Austin / Robyn Fairman

Background documents

- Self – sufficient local Government: 100% business rates retention

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535022/Business_Rates_Retention_Consultation_5_July_2016.pdf

- Business rate reform: call for evidence on needs and distribution

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/534956/Discussion_document_-_Needs_and_Redistribution.pdf

- London councils Leaders committee: Business Rates Devolution for London (L7/6) July 2016

<http://www.londoncouncils.gov.uk/node/29236>

London Councils Executive Committee: Business Rates Devolution and the London Finance Commission September 2016

<http://www.londoncouncils.gov.uk/node/30248>

APPENDIX ONE

Draft Lewisham response to DCLG consultation Business Rates Reform: Fair Funding Review: Call for evidence on Needs and Redistribution

Summary of key questions

Question 1: What is your view on the balance between simple and complex funding formulae?

We would, of course, wish to see a simple formula, able to be understood by all but ultimately we need the right formula. Since many of the special grants have been rolled into RSG, there needs to be a nuanced way of taking need into account. The key cost drivers in Lewisham are childrens' social care, adult social care – both for the very elderly but also those with leaning and physical disability, and the consequences of London's housing crisis – homelessness and temporary accommodation costs. Other consequences of population increase and changing demography also impact differentially e.g. no recourse to public funds is a major cost driver in Lewisham. This need to account for multiple dimensions and factors will lead to increased complexity.

Question 2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

For many services, a simple population based formula, with corrections for deprivation and area costs will be sufficient. Consideration does need to be made on the realism of existing area cost adjustments. With the rate of rising population in London need should be should be revised regularly. However the more significant costs in London local government are not associated with universal services, but are focused on social care and temporary accommodation for homeless households. These should be dealt with separately, and a model developed to enable the prediction of such need based upon demography, socio-economic conditions and deprivation, and population change.

Question 3: Should expenditure based regression continue to be used to assess councils' funding needs?

Any new needs formula which significantly changes the distribution of funding will cause problems for local government. After six years of cuts to spending the ability of local authorities to respond flexibly to further reductions (or even increases) is reduced. This is why basing future funding on past spending is important. It may well be that differences in expenditure between authorities do not wholly reflect need, but they will reflect historic choices and decisions made on priorities, or the shape of the provider market and economy, and as such are difficult to unpick. Need should of course shape funding but not accounting for existing spending to reflect real variation in local costs will cause significant disruption.

Question 4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?

The key cost drivers in Lewisham are the consequence of socio-economic need, and a model may be able to be developed that uses key indicators of need as inputs. Broad brush use of the IMD data is not sufficient in modelling the needs in adults social care and childrens services, or of homelessness.

For childrens' services we would contend that, as a reflection of need, the following indicators could be useful:

- Demography – numbers of children and population predictions
- Free School Meal (FSM)
- Disability Living Allowance (DLA)
- English as an additional language (EAL)
- Children in poor health, and with disabilities
- Income deprivation affecting children index IDACI,

As well as consideration of the historical numbers and trends in the numbers of children in social care, with high needs and with disability.

For adult social care similar indicators (such as the BCF indicators for 1) the % of people who remain at home 91 days post discharge; 2) Admissions to Residential and Nursing Care; 3) delayed transfers of care by number of days; or the SALT return for number of adults with learning disability supported by adult social care) would be useful:

- Demographics – particularly numbers of older people aged 80+
- Deprivation (e.g. correlation between numbers of young people with an LD who need support with free school meals numbers, lower level of LA support needed in areas where more people can fund own care)
- Health – e.g. numbers with a limiting long-term illness
- Disability (benefits numbers as a proxy)
- Numbers (proportion) of lone parent families
- Transience of population
- The availability and the nature of supported housing services including Extra-Care Housing for Older People.

Homelessness places huge financial burdens on local authorities, and the inclusion of indicators of housing stress should be factored in including numbers of people in temporary accommodation, waiting for accommodation and house price: earnings ratio are important.

Question 5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

The formula must contain elements of expenditure based regression for most universal services, and some form of multi-level modelling for the high need/ high cost areas.

The formula should contain detailed and long-term past expenditure trends for universal services, and a comprehensive range of social and economic drivers for high need/ high cost areas. The modelling should include social and economic statistics produced for; the Public Health Outcomes Framework Indicators maintained by Public Health England at <http://www.phoutcomes.info/public-health-outcomes-framework#gid/1000049> ; the Local Authority Interactive Tool database maintained by the Department of Education at <https://www.gov.uk/government/publications/local-authority-interactive-tool-lait#history> ; the 2015 Indices of Multiple Deprivation maintained by the Department of Communities and Local Government at <https://www.gov.uk/government/statistics/english-indices-of-deprivation-2015> ; Sub-National Population Projections, Mid-Year Population Estimates and migration and other relevant demographic statistics published by the Office of National Statistics at sites including <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/compendium/subnationalpopulationprojectionssupplementaryanalysis/2014basedpr>

[objections](https://www.nomisweb.co.uk/) ; and, official labour market statistics published by the Office of National Statistics at <https://www.nomisweb.co.uk/> .

Question 6: What other considerations should we keep in mind when measuring the relative need of authorities?

We should consider the ability of the authority to generate other sources of income. For some authorities in prosperous areas with large economies, there are likely to be opportunities open to the council for income generation e.g. advertising on the highways and elsewhere. For other authorities there will be little opportunity to generate additional external income.

However the level of the annual levy on a band D property for council tax should not be a consideration as this is a political consideration. If an area has chosen to have low council tax, this should not be taken into the calculation of need.

Question 7: What is your view on how we should take into account the growth in local taxes since 2013-14?

There is danger of mudding two or more policy objectives here. If the policy objective of 100% business rates retention is purely to enable devolution then business rates could be seen as merely another tax whose source is irrelevant. In Lewisham, we would argue about the logic of the case and the implications of the policy- see Annex One where our Chief Executive argues the logic of the case for social care being funded by a property tax.

If we make the case about retention being there to incentivise economic growth and the business base in a local area, the degree of retention is important locally. A policy objective of using business rates to promote economic growth through ensuring the local authorities focus on business development economic development and planning will require enough of a local incentive to generate this attention.

There is always a careful balance to be achieved between the need to incentivise local authorities to do 'the right thing' and the need to ensure that there is enough money in the system to ensure fair and equitable distribution and fair funding.

Some authorities will find it much easier to build on their existing business base; some authorities, including Lewisham, may find their business base being eroded by permitted development rights outside their control; some more deprived areas with very weak regional economies will find building a business base incredibly difficult. However, we would argue strongly that there is a need for authorities like Lewisham with a small business base to be incentivised to seek to build this base.

An increase in council tax base might be seen to be a compensation for the increase in population in an area. However, population increase and council tax base do not correlate. In Lewisham for instance, over 30% of the increase in population is increased birth-rate in some of our more deprived communities. This is a population increase without an increasing council tax base. It would not be sensible to include this a part of the resource available to councils as; firstly the council tax base does not correlate with population increase, and secondly the annual levy figure is a political choice.

National policy must always seek a fair funding solution- and lean towards equalisation. We believe that at a regional level, pooling across city regions may be able to better respond to local incentivisation. Neither the increase in council tax base, nor the increase in business rates should be part of the assessment.

Question 8: Should we allow step-changes in local authorities' funding following the new needs assessment?

Unless the funding for needs is undertaken regularly and frequently or when the model is being reset, there is a risk that large changes from one review to the next emerge. This does not make the change wrong but with local government resources so constrained any changes in funding should be implemented in a transitioned way, stepped or otherwise.

Question 9: If not, what are your views on how we should transition to the new distribution of funding?

See answer to Q8.

Question 10: What are your views on a local government finance system that assessed need and distributed funding at a larger geographical area than the current system – for example, at the Combined Authority level?

We have no views on this as a London Borough. However, subject to the necessary governance being resolved and unanimously agreed in advance, a wider geographic approach as part of a devolution deal could be appropriate.

Question 11: How should we decide the composition of these areas if we were to introduce such a system?

We have no views on this as a London Borough other than to note that we support the London devolutions proposal in response to business rate consultation running in parallel to this consultation.

Question 12: What other considerations would we need to keep in mind if we were to introduce such a system?

See answer to Q10.

Question 13: What behaviours should the reformed local government finance system incentivise?

The incentive to grow business rates is clear, and simple to understand. Determining what is meant by efficiency is not simple or easy to understand, nor do easy measures exist that could be used to measure progress of compliance. The incentives for collaboration will also be difficult to judge, and assume that there are always benefits. Perverse consequences for both incentives could be very difficult to identify, manage and avoid. If Government wants to encourage collaboration and sharing, they should bite the bullet and use policy incentives to do so. Either fund transformation and change or go further and reorganise local government.

London has proposed a pooled mechanism to encourage and incentivise transformation, which would be preferable to nationally imposed blunt rules.

Question 14: How can we build these incentives into the assessment of councils' funding needs?

This should be done at a devolved level.

Annex One:

There is no logical reason to pay for social care with local property taxes

Barry Quirk

Local Government Chronicle

16 October 2015

The strategy to localise business rates reflects the government's drive to connect local government better to its local economy. I support this drive. Too many councils in England have adopted a parochial approach to their role and have conducted themselves in isolation from the wider economies in which they are situated.

More generally, local government fails to achieve its broader purposes if it focuses only on securing cost-effective public services. Councils must also focus on improving the productive effectiveness of their local economy. A focus on services will boost overall quality of life locally. A complementary focus on the wider economy will help to boost the quality of life-chances locally. That is why linking councils' spend directly to the local revenues raised from council tax and business rates is a laudable aim.

The trouble with laudable aims is that they often crash on the rocks of harsh realities. In this instance the rocks are 1) the economic realities of local economies and 2) local government's functional service responsibilities.

The abolition of the uniform business rate multiplier, used to calculate the rates businesses should pay based on their value, is welcome. It will allow councils to offer discounts or charge more for investments, and to address the weaknesses in their economies.

This builds on existing practice. London has 37 business improvement districts that recycle small additions to local business income so as to support investment that will improve the market conditions for local businesses. Large businesses in London with a rateable value of over £55,000, or who pay more than £28,000 per year, pay an additional 2p in the £1 to finance £4.1bn of the £15.9bn being spent on the Crossrail development.

Over the next five years it is crucial that businesses contribute to their local economies through more focused business rates. That's because the Treasury anticipates that aggregate corporation tax will actually reduce over the period to just 1.9% of GDP. Unlike corporation tax, business rates are difficult to avoid paying.

Here's an example. Just off Oxford Street in London, a new development is underway in Rathbone Square. The 420,000ft² development comprises 142 flats, 24,000ft² of retail space and 230,000ft² of office space, all of the latter of which has been taken for the new London HQ of Facebook.

This will cost Facebook £16.9m per year in rent and they will have to pay Westminster City Council about £4m a year in business rates. The company paid less than £5,000 to the Treasury in corporation tax last year on annual sales of £105m. In short, it is easier to collect taxes from businesses on their use of property, than it is on their reported profitability.

The other harsh reality is that England contains incredible variety in its economic geography. Middlesbrough has a similar sized population to St Albans: about 140,000. Middlesbrough collects £42m in business rates; St Albans collects £63m. Middlesbrough is a unitary, in one of the ten most deprived local authority areas in England; St Albans is a district, in one of the ten least deprived areas. It is right that they should each focus on supporting business growth and improving their local economies but how can their vastly different service responsibilities be funded in the same way?

The issue as to whether local government should be funded entirely from property taxes was discussed at the LGC Summit. Clay Pearson, a city manager from Texas, explained how his council got none of its revenues from state or federal government. However, only 21% of its revenues come from property taxes, because local government in the US has many and varied sources of revenue. These varied revenue streams enable US local government to be resilient to the inevitable external economic shocks. In virtually every other advanced nation, social care services are not the responsibility of local government. The quality standards and levels of assurance required to deliver social care requires reliability in service provision and predictability of financing. There is no intellectually respectable argument for financing child protection and adult social care from localised property taxes and yet that is where we are headed.

This is a consequence of a series of unconnected decisions. Whitehall now seems alert to this issue. There is a clear need to take the fiscal devolution agenda forward to boost the productive potential of England's second-tier cities and the large counties, but there is also a critical need to produce stable financing for acute services to those small numbers of people (about 2,000 in every population of 100,000) that require society's support and intensive help.

Barry Quirk, chief executive, Lewisham LBC

APPENDIX TWO:

“Self-sufficient local government: 100% Business Rates Retention”

A joint consultation response by London Councils & the Greater London Authority: Summary

1. This paper sets out a joint position on how London Government believe the 100% business rates retention reforms should be implemented in London in order to benefit not just the capital but the local government sector – and the UK economy - as a whole. It summarises the (much longer) accompanying draft consultation response. This develops a set of key principles that were agreed by London Councils Leaders’ Committee and the Mayor of London in June, and formally submitted to the Chancellor of the Exchequer and the Secretary of State for Communities and Local Government on 1st July.

Rationale for London devolution

2. The Government’s proposals to localise business rate income create an opportunity to secure devolved responsibility for an important strand of local government funding – to which London has a long-standing commitment. Developing a successful London approach will help protect and promote economic growth in the capital - and therefore in the UK as a whole - will secure funding for public services and strategic infrastructure investment, and will support local public sector reform and enhance the accountability of London Government to its business taxpayers.
3. In order to achieve this, however, it will be necessary to recognise that London’s circumstances may require different solutions to other parts of the country, and that those solutions require joint and collective approaches by all parts of London Government. It will also be important to overcome some of the key flaws of the existing business rates system.
4. London’s economy is vital to the success of the UK as a whole. In 2014-15 London generated around £140 billion in tax – exceeding the cost of public services in the capital by an estimated £45 billion. But London’s economy – and its business rate tax base – is different to the rest of the country: with only 16% of England’s business premises, it currently generates around 30% of business rate income; 68% of those rates come from office and retail premises, compared to only 43% elsewhere.
5. Two key elements of the current system could undermine the Government, and London’s, ambition to use business rates to provide incentives and rewards for promoting growth: appeals and revaluations.
6. The effect of appeals – particularly in London – has been to undermine the benefit of growth, to introduce an unacceptable degree of uncertainty in funding and to tie up vast amounts of resources in provisions for successful appeals.
7. Under the current system, where the total business rates yield is fixed at the national level, revaluations act as a redistribution mechanism over and above the resetting of business rates and funding baselines. This will be brought home in the impact of the revaluation due to come into effect in April 2017. In areas in which property values rise faster than the national average, rates paid by businesses will rise, while those paid in other areas will fall. This has two interrelated consequences which potentially undermine the Government’s policy objective. Firstly, the burden of business rates will fall on a smaller and smaller number of businesses (we

estimate that, under current arrangements, London businesses' contribution would double from 30% to 60% of the total). Secondly, the taxbase in areas with lower rates of property market growth is artificially depressed, thus leaving local authorities in those areas increasingly reliant on top-up funding and increasingly unable to benefit from the economic growth they are seeking to promote.

8. The difficult balance between rewarding growth and reflecting needs in local government funding is also made harder by a national approach which seeks to address the issues of authorities of hugely different scale, geography, demography and economic activity. The result is complex, opaque and promotes unhelpful division. A more devolved approach could improve clarity and accountability.
9. London's proposals, as set out in the fourteen "asks" summarised below, 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.

Retention level

10. The level of rates retained is inextricably linked with the additional responsibilities to be funded (see Ask 2 below). Following the 2017 revaluation it is likely that London's rates will exceed current spending responsibilities (including those agreed for transfer in April 2017) by around £4 billion. Transferring additional spending responsibilities to match these resources would maintain "fiscal neutrality" ensuring that neither the government nor the rest of the local government sector is financially disadvantaged. It could also provide the opportunity to pilot devolution approaches across a range of services. The headroom anticipated would be sufficient to fund all of the grants and services London would seek to transfer (see Ask 2).
11. If however, the agreed national approach requires a lower level of transfer and a continued contribution from London, this should be calculated as a single aggregate tariff for London, based on regional business rate and funding calculations (see Ask 7). London Government would then take responsibility to manage top-ups and tariffs to balance to zero *within* London.

Ask 1 – London Government seeks to explore full retention of the business rates collected in the capital buy 2020; if London does not retain 100 per cent of its business rates, we ask that the tariff is one single payment at the aggregate London level

Additional responsibilities

12. The Government consultation identifies a list of grants and services for potential transfer. London would seek the transfer of those responsibilities which best support its ability to promote economic growth and implement local public sector reform. As stated above, the future level of business rates in London would be sufficient to fund all of these within the capital (see Annex 1 for details); but the same is not true for the country as a whole. If the level of transfers has to be scaled to match the national total of business rates (rather than, say, Government identifying additional budgets to devolve) London's priorities would be to transfer those responsibilities which best support its ability to promote growth and implement local public sector reform.

Ask 2 – London Government would prioritise the transfer (over and above what has already been decided) of:
- Skills - 16-19 funding

- **Adult Education Budgets**
- **Work and health programme**
- **Capital funding for Affordable Housing; and**
- **Early Years funding**

13. Devolution should be an on-going process, not confined to those services which can be funded by current business rates. Any future transfers should be accompanied both genuine transfer of control of the services concerned as well as clarity about future funding – whether through increased business rates yield, other devolved taxes or government grant.

Ask 3 - London Government would wish to agree prior to the start of the 100 per cent retention system a robust mechanism for negotiating and agreeing with central government any new responsibilities that are to be delivered in the capital beyond 2020

Revaluations and Resets: balancing needs and resources

14. As indicated in paragraph 5, the current revaluation system distorts both the economic effectiveness of the tax and the tax base of local authorities around the country: in future that tax base should rise or fall in line with economic performance. London believes that sub-national areas that can show to government they are willing and capable of delivering devolved control of business rates should be allowed to benefit from increases, and manage the risk of decreases, in their tax base arising from changes in valuation. Breaking the link between revaluation and the fixed quantum of tax yield benefits both those areas where commercial property markets are strong and those where they are not. Where values rose, local authorities would be able to fund additional investment or services, or reduce the multiplier while maintaining current expenditure levels. This would both underpin devolved local government and improve local political accountability.

Ask 4 - London Government asks for London's business rates to be "de-coupled" from the national valuation system.

15. Government is considering changes to the frequency of valuations and the appeals process they inevitably generate. However, accountability for the accuracy and timeliness of decisions would still not be aligned with their impact on local authorities' finance. Once London's rates were "de-coupled" from the national valuation system, greater alignment could be achieved by a corresponding devolution of the valuation process to match devolved control and accountability for raising rates.

Ask 5 - London Government calls for the ability to determine its own valuation system to be administered by a regional valuation office for London.

16. Finding the appropriate balance between risk and reward - meeting need and incentivising growth - is perhaps the biggest challenge in setting up the 100 per cent retention system. We believe that, within a London retention system, the frequency of resets of business rate and funding baselines should be determined locally by London Government. We would seek to manage future resets taking into account the overall balance between spending need, council tax base, the speed of change and the desire to maintain incentives within a devolved system. We think that it may be possible to reset funding and business rates on different timetables, for example with business rates baselines being set over a longer period (10 years for example) and funding baselines being reset more frequently (every 3 years for example), and would explore options around this.

Ask 6 – London Government calls for the ability to manage future resets of business rate and funding baselines, and their impact, within London.

17. Measuring relative need to spend will be a key factor in any reformed system that balances authorities' capacity to spend and raise tax. There is common agreement across the sector that any new needs assessment system should be less complex and more responsive to changes than the current system. A potential solution could involve a two-stage approach to assessing need. The first stage would be an assessment of needs at a suitable sub-national level, followed by a more local/sub-regional approach to allocate within these areas.
18. Such an approach would:
- be less complex and therefore more transparent;
 - be more responsive to population changes; and
 - give London boroughs and the GLA more collective ownership over the process and therefore would build trust that the system is fair.

Ask 7 – London Government proposes a two-stage process in which a regional needs assessment for the capital would be combined with the ability to vary a needs formula within London over time to reflect local circumstances.

Determining the allocation of resources between tiers of London Government

19. The allocation of resources in London should follow the responsibilities to be funded. The starting point should therefore be the agreed transfer of responsibilities: any future revisions should be periodically agreed and managed by London Government.

Ask 8 – London Government asks for the ability to decide collectively for itself how business rates are shared between the boroughs and the GLA.

Setting Business Rates – flexibilities

20. London Government would wish to explore options for either a collectively agreed single multiplier across London, or two separate multipliers with the Mayor of London being granted the ability to set a proportion of the rate on a London wide basis, and boroughs collectively setting the rest of the multiplier.
21. Following successful implementation of a London scheme, however, we would want to explore with Londoners how this could be developed towards full control of rate setting – including the safeguards that would be required to prevent a disproportionate tax burden on business – along with a broader range of fiscal devolution as envisaged by the London Finance Commission.

Ask 9 – London Government initially seeks the flexibility to determine the business rates multiplier(s) in London, agreed collectively between the Mayor and London's borough Leaders over a defined period

22. In the short term, it will be important that the 2% infrastructure levy opportunity offered to Combined Authority areas should also be available in London, over and above the existing Business Rate Supplement that funds Crossrail.

Ask 10 – London Government asks that the 2% infrastructure levy is made available to the Mayor of London.

23. Mandatory reliefs awarded in London will amount to around £650 million in 2016-17, and are currently set by central government. London Government believes these could be used more constructively to improve local economies and to encourage greater dialogue and engagement between councils and local businesses. London Government should have the collective ability to set the qualification criteria and thresholds of the existing mandatory reliefs currently set by central government (and the discretionary elements of those schemes), as well as determining new mandatory relief schemes periodically when deemed necessary. This would include the small business rates relief threshold. Where individual boroughs or the Mayor wished to offer additional discounts over and above a collective scheme agreement, this could be achieved through adjustments to their retained rates.

Ask 11 – London Government seeks the flexibility for all parts of London Government to determine all business rates discounts and reliefs, including scheme parameters and thresholds

Distributing the benefits of growth

24. Within a devolved system, any business rate growth could be retained by boroughs and the GLA in line with their overall share. However, London's economy is a complicated system in which different parts of the capital will have different, but inter-related, roles to play. For the economy to keep growing in a sustainable manner, we need to expand the overall business premises capacity, but also to find ways to house, train, transport and provide access to leisure and culture for millions of people around the capital. We may therefore want to use some of the proceeds of growth to facilitate additional investment, and to create targeted rewards that incentivise contributions to the capital's overall success beyond hosting new business properties.
25. This could be achieved by retaining a central pool for distribution according to collective priorities. Ultimately, however, this should be a matter for London Government to determine.

Ask 12 – London Government asks for the ability to determine collectively how the proceeds of growth are shared within London

Managing risk: safety nets and the Central List

26. If the move to 100% retention is to be successful then the need to share and manage risk effectively will be essential. However, the balance between central and local responsibility cannot be separated from the questions of the overall proportion of rates retained, and the degree of local control allowed.

Ask 13 – Under a devolved retention system, London Government asks that the safety net mechanism and thresholds are determined locally by London Government

27. The central list has been identified as a potential source of funding for future safety net arrangements. Where responsibility for such arrangements is devolved, it would be appropriate also to maximise local access to the rates derived from properties currently held on the central list. This would also increase opportunities and incentives to maximise the value and use of such assets where possible.

28. London local government considers that, unless there is a clear case for an assessment to be on the central list, it should be on either a local list or regional list.

Ask 14 - London Government would seek to transfer central list properties to either a local or regional list wherever possible, including the transfer of TfL's separately identifiable assessments potentially as a single TfL operational assessment.

Governance

29. A regional approach to managing business rates in London will require appropriate mechanisms to ensure that robust, timely and accountable decisions can be taken to raise and distribute tax revenues. In return for the level of devolution and autonomy London Government is asking for, central government will require reassurance that London is capable of governing such a system collectively.
30. London Government is well placed to develop a collective governance model to enable a devolved business rates retention system. London is the only region in England with a regional tier of government, and the 33 local authorities and the Mayor of London have developed a mature relationship that has gradually evolved since 2000.

Decisions required to set up and run a devolved retention system

31. The proposals set out in this paper generate three classes of decisions for London to Government address:
- **Initial set-up:** decisions and agreement with Government on the scheme design, including the level of retention, responsibilities transferred, the basis and frequency of revaluations, and resets, the allocation of resources between GLA and boroughs, the multiplier(s), the framework for discounts and reliefs, the distribution of growth proceeds, the operation of a regional safety net and a regional list. Such decisions would need to be taken collectively – and unanimously – by the Mayor of London and Leaders.
 - **On-going tax-setting and resource allocation:** annual decisions such as setting the multiplier(s) and allocating the collective growth pool; periodic decisions such as agreeing revised baselines and changes to the needs formula. These decisions would need to be taken collectively by the Mayor and Leaders, building on the existing Congress arrangements, with appropriate voting and other principles consistent with the London Finance Commission in 2013, built in to ensure the appropriate protection of minority interests within London.
 - **Technical underpinning and review:** it may require two independent technical commissions to manage on-going work around valuation (including the performance of a regional VOA) and the operation of the tax, and around maintaining the needs formula and distribution model. Political oversight of these commissions could be undertaken by the Governance structures described above.

Existing principles

32. The London Finance Commission identified a set of principles upon which such governance could be based. These were expanded in evidence submitted to the CLG Committee inquiry into fiscal devolution in April 2014. These governing principles are as follows¹:
- **Each element of London government should have a stake:** Elected leaders of all London local authorities and the Mayor of London must be able to feel confident about the governance arrangements for the new finance system
 - **No exclusion:** No one borough or group of boroughs can be excluded from the benefits of London's success or become disempowered from addressing local needs.
 - **No over-riding:** Interests of the Mayor cannot be overridden by the boroughs or vice versa.
 - **No deadlock:** Arrangements must prevent or break deadlock. We believe that this can be achieved through suitable voting arrangements and clarity about which tier of government is responsible for decision-making, as reflected in the principles below.
 - **Enforcement:** The system must enforce binding decisions and these decisions must reflect a clear initial consensus – even if there are disagreements from time to time about individual decisions.
 - **Simplicity and clarity:** The reformed system should be as simple as possible. It should avoid the need for annual decision-making between different sections of London government. It should seek to distinguish clearly the responsibilities of the GLA, Boroughs and London Assembly.
 - **Stability...** Existing responsibilities should be maintained where possible.
 - **... But potential for reform.** Provisions in the 'devolution settlement' should enable, by agreement, periodic property tax reform and changes to any within-London distribution arrangements. Such reforms would be distinct from the 'Day 1' operation of a devolved system. There should also be a presumption that the more significant reforms were proposed, the longer they would be phased in.
 - **Practical operations:** decisions would be taken by the Mayor or Borough politicians as appropriate. However, a joint GLA and London Councils Officer Group would provide standing technical advice and support for politicians to decide matters where there is significant joint interest under the above arrangements. This might be independently chaired.
 - **Decision rules:** Any new system would require a set of decision rules, some of which would be reflected in legislation. For instance, Parliament might legislate for periodic property revaluations to be carried out by devolved authorities. There are various options for the rulebook governing changes within London following devolution but here is one example:
 - Mayor would need to agree any decision and by converse would have a veto
 - Boroughs would need to agree to any decision by their own rules (e.g. two-thirds majority)
 - The London Assembly would retain its existing powers to amend or reject the Mayor's tax and spending decisions, which would be enhanced commensurate with the increase in the Mayor's powers.

¹ Extract from a joint letter from Boris Johnson, Mayor of London and Mayor Jules Pipe, Chair of London Councils to Clive Betts MP, Chair of the Communities and Local Government Committee, 10 April 2014, submitted as evidence to the Committee's review of Fiscal Devolution

33. The Mayor of London has re-formed the London Finance Commission 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. We will follow the work of the commission closely, and anticipate that it will re-visit the governance principles outlined above in the context of recommendations on broader fiscal devolution.

London Government will work with government collectively build on these principles to define and establish appropriate governance arrangements to manage a devolved business rates system.

Annex 1: Additional Responsibilities

1. London Government believes, when determining the existing grants and new responsibilities that should be funded by business rates, priority should be given to responsibilities that maximise London Government's ability to improve the life of Londoners, the effectiveness and efficiency of its public services, and the future economic success of the capital.
2. We would therefore wish to prioritise the transfer of grants and responsibilities that:
 - have a direct relationship to business;
 - help tackle key infrastructure challenges, including housing and transport; and
 - have a compelling public service reform case to be delivered more efficiently and effectively by local government.
 - 1.
3. We believe the government should first consider the outcomes the sector is aiming to achieve, and then design local public services around them. This will require greater exploration of the funding necessary to deliver those outcomes. However, the list set out in the consultation is a helpful starting point, which we have used to identifying grants and responsibilities we feel are suitable candidates to be transferred in Table 4.
 - 2.
4. The grants and responsibilities listed below are grouped by whether they are a new responsibility or existing grant, and then by which of the three principles set out above they meet. Estimated values for London in 2019-20 are set out in the fourth column.
 - 3.

Table 4 – Existing grants & new responsibilities - Suitable candidates for transfer

	Existing grant or responsibility	Principle	Estimated London value in 2019-20 (£bn)
Adult Education Budgets	New responsibility	Business link/PSR	0.227
Skills - 16-19 funding	New responsibility	Business link/PSR	0.449
Careers Service	New responsibility	Business link/PSR	0.009
Work and health programme	New responsibility	PSR	0.014
Youth Justice	New responsibility	PSR	0.054
Valuation Office Agency	New responsibility	PSR	0.05
Affordable Housing capital funding	Grant	Infrastructure	0.417
Transport capital (outside London)	Grant	Infrastructure	n/a
Revenue Support Grant	Grant	PSR	0.538
Public Health Grant	Grant	PSR	0.628
Early Years Block of DSG	Grant	PSR	0.748
Improved Better Care Fund	Grant	PSR	0.247
Independent Living Fund	Grant	PSR	0.019
Housing Benefit Admin Subsidy	Grant	PSR	0.033
Council Tax Support Admin	Grant	PSR	0.015
Rural services Delivery Grant	Grant	PSR	n/a
Total grants & responsibilities			3.448
Total "headroom" in 2019-20			3.975
Remaining capacity			0.527

NB: The RSG figure here is net of the GLA's RSG which will be funded from business rates from April 2017. TfL Capital grant is also excluded as this will be transferred in 2017-18.

APPENDIX 3

DRAFT “Self-sufficient local government: 100% Business Rates Retention” A joint consultation response by London Councils & the Greater London Authority

About this response

1. This is a joint response on behalf of London Councils (representing the 32 boroughs and the City of London) and the Greater London Authority (GLA). It has been agreed by the 33 Leaders of London’s local authorities and the Mayor of London.
2. It firstly sets out a joint position on how we believe the reforms should be implemented in London in order to benefit not just the capital but the local government sector – and the UK economy - as a whole. This develops a set of key principles that were agreed by London Councils Leaders’ Committee and the Mayor of London in June, and formally submitted to the Chancellor of the Exchequer and the Secretary of State for Communities and Local Government on 1st July.
3. **Appendix 1** then includes detailed responses to the consultation questions.

Introduction

4. Since the Chancellor’s announcement that local government would retain 100 per cent of business rates by 2020 in October 2015, London Government has been working collaboratively to develop a strategic pan-London response to the reforms. We welcome the consultation on the reforms to the business rates retention system required in order to make local government “self-sufficient” by 2020, and its commitment to “explore with London [along with Greater Manchester and Liverpool combined authorities] options for moving to 100% business rates retention ahead of the full roll-out of the business rate reforms.”
5. London Government has long held the view that it should be granted control of a wide range of local taxes, including business rates. The re-convened London Finance Commission (reporting in autumn 2016) is likely to recommend greater fiscal devolution and tax raising powers for London. London’s continued economic growth is vital to the country as a whole; maintaining that growth during a period of uncertainty in which the UK will leave the EU – and managing a rapid increase in population – will be a huge challenge. Devolving business rates (and other revenue streams) will help build a joint, city-wide approach that can incentivise, prioritise and manage the public services and infrastructure investment London needs to continue its contribution to the public life and economic success of the UK.
6. However, there are two major threats to the Government’s policy objective of promoting growth and self-sufficiency: 1) the issue of business rates appeals - which is now widely recognised across the sector; and 2) the fact that there is an overall “fixed quantum” of business rates - which distorts incentives and undermines the economic credibility of the tax. A devolved approach would give London Government the opportunity to address both issues – even without the power to increase the rates bills for individual taxpayers.

7. Furthermore, London's population will continue to grow much more rapidly than that of the rest of the country. This brings opportunities and challenges not only in the successful management of the capital's economic growth, but also in securing a sustainable financial future for its public services. In considering the future assessment of relative needs and the services to be transferred, it will be essential that any London deal secures genuinely devolved control over a level of resources sufficient to manage the financial risks involved.
8. In June 2016, London Government collectively agreed a set of principles that would inform the design of each of the key elements of a devolved business rates retention system for the capital. This response expands on those principles and sets out a clear vision for how a London business rates retention system would operate.

Issues with the current local government finance system

9. London Government believes there are issues with the current local government finance system that must be addressed if local government is to be put on a sustainable financial footing over the long term, in a world where business rates and council tax will fund virtually all local government services from 2020. The current funding system breeds uncertainty; is too complex and lacks transparency; and is too centralised with a lack of local control.

Uncertainty

10. London Government believes the current local government finance system does not provide local authorities with the stability needed to budget effectively over the medium to long term. We welcome the 4 year settlement which will give some degree of certainty over one element of local government funding - Revenue Support Grant (RSG) - until 2019-20, however uncertainty exists over other funding streams. Ring-fenced grants often have their own complex funding formulae that are frequently recalculated. The extent to which local authorities can benefit from Council Tax varies widely because of historic decisions and out of date valuations. And, most importantly, the level of retained business rates varies across the country and bears little correlation with economic growth. The four year settlement sets out targets for retained business rates – but there is no guarantee local authorities will meet them, in large part due to the impact of business rates appeals, and the failure of the current retention system to incentivise growth.
11. The uncertainty caused by business rates appeals is the biggest issue government must resolve with the current retention scheme. It disproportionately affects London boroughs, which receive more appeals, and where appeals are generally of higher value and take longer to clear than elsewhere. The aggregate provision for appeals across all 33 London billing authorities as at 31 March 2016 exceeds £925 million. The current backlog of appeals on the 2010 rating list in London is proportionately much higher than the rest of the country and progress on reducing this backlog also appears to have been much slower in the capital particularly in central London.
12. The unpredictability of appeals meant the Government underestimated the call on the safety net in the first three years of the retention system. As a consequence, an additional £195 million was top-sliced nationally from RSG: funding that would otherwise have benefited all authorities. The GLA incurred a deficit against its baseline of £120 million in the first two years of the scheme due to the impact of provisions for appeals but was ineligible for a safety net payment.

13. More broadly, the 50 per cent scheme has failed to incentivise growth sufficiently. Analysis of publicly available data on business rates confirms this – with negative growth in the first three years of the system despite strong economic growth across London. Aside from the uncertainty caused by appeals, the growth incentive is weak for several reasons:
- a. the 50 per cent growth retention rate is too low (we believe should have been 100 per cent from outset);
 - b. there is a levy on disproportionate growth for tariff authorities;
 - c. the definition of growth only applies to physical rather than revaluation growth – this makes it difficult for local authorities in built-up areas, like London, to benefit financially from the current system any additional physical growth often requires the demolition of existing buildings first; and
 - d. growth is lost when the system is reset, which acts as a disincentive for developments as the “cliff edge” of the reset draws closer.

Transparency and complexity

14. Uncertainty is compounded by the second main issue with the local government finance system: its sheer complexity, which leads to a real (and perceived) lack of transparency.
15. This begins with the Spending Review process whereby HM Treasury agrees departmental spending allocations behind closed doors, and DCLG is left with a Departmental Expenditure Limit from which RSG is calculated. Existing funding burdens, such as pressures caused by people with No Recourse to Public Funds or those claiming Council Tax Support, are reportedly taken into account when agreeing the overall funding control total for the DCLG (and thereby the overall level of RSG), however, it is not clear how.
16. The needs assessment which drove the original funding baselines in the business rates retention system, and to a large extent the distribution of RSG, is incredibly complex and opaque making the original funding distribution at the start of the current retention system difficult to understand. By seeking to account for differences between such a diverse range of organisations, with budgets ranging from £2 million to well over £1 billion, the current needs assessment has evolved to be unavoidably complex. This has resulted in different parts of the sector being forced into competition to argue for the factors that matter most to their areas.
17. Continual tweaking of the methodology for calculating RSG has meant that changes to the distribution of funding since 2013-14 have often been difficult to understand. “Rolling in” certain grants and responsibilities (such as Council Tax Support and Local Welfare Provision), while keeping others as visible lines within RSG, has further added to the confusion, impeding the ability of local authorities to understand whether there is a fair level of funding for the services they are required to deliver. The confusion over the calculation of the “transition grant” in the 2016-17 LGF Settlement is the latest example of how this lack of transparency permits central manipulation without appropriate accountability.

18. Finally, the business rates retention scheme architecture is too complex. The scheme was supposed to be simpler than the previous system of formula grant and specific grants. However, because it is a partial retention system involving different shares for different tiers of government, because there has been a growing number of mandatory reliefs with complex qualification criteria. In addition because there is an overly complex way of forecasting and accounting for appeals, it has resulted in a scheme in which it is difficult to assess accurately whether there has been growth against a baseline or not, let alone one in which business rates growth follows wider economic growth.

Lack of local control

19. The third main issue with the current system of local government finance is that there is too much central control by government. London Government believes that decisions over funding of, and expenditure on, local public services should be taken as close as possible to the tiers of government delivering those services. The current finance system remains overly-centralised. Compared with other developed countries, the UK is an outlier in the level of tax raised and spent locally².

20. Ring-fencing certain government departments, while others bear greater proportionate cuts, has an impact in funding available to local authorities. This not only impacts on the overall level of core funding, but affects the way in which local government is able to use its financial resources. Despite government attempts to rationalise grant funding streams following the 2010 Spending Review, there has been a gradual increase in the number of ring-fenced and targeted grants. These often have their own complex formulae, such as the Public Health Grant, which have their own bureaucratic and time-consuming machinery to determine.

21. In addition, there are many services that local government has a statutory duty to deliver, but is required to charge for at a level determined by central government rather than local councillors. The result is that there are a number of services which leave councils with an overall net loss each year. We believe the government should reduce the number of nationally set charges; make locally determined charges the norm; allow local authorities to recover full costs, even for charges set at the national level; and remove central controls on planning application fees, building control charges, land searches and licencing fees.

22. Finally, there has been too much central control over council tax which has restricted long term sustainable financial planning. The capping of council tax increases through the referendum principle further perpetuates the lopsided relationship between central and local government. Apart from business rate supplements which are also levied by local authorities, it is the only tax that requires such a referendum and reinforces central control over local government. It means local government has little freedom and flexibility to fund existing unfunded burdens, like NRPF, or underfunded services, like Temporary Accommodation, or services that see a sudden large increase in demand. We believe that local government should be permitted greater control over the funding of the services it delivers – this would not only ensure local public services are adequately funded but would, ultimately, strengthen local democratic accountability.

² <http://www.publications.parliament.uk/pa/cm201415/cmselect/cmcomloc/503/50305.htm>

Rationale for a London retention system

23. London Government believes an effective local government finance system must address these issues. We believe the best solution for London – and for the country as a whole - would be to establish a devolved business rates retention system run by London Government with only minimal ongoing input from central government. Successful, self-reliant local government will help drive economic success as well as providing effective and responsive public services.
24. London drives economic growth of the whole country; has a unique property tax base; and has some unique public service pressures because of its population density, demographic profile and levels of migration. London's circumstances may, therefore, require different solutions to other parts of the country in implementing 100 per cent business rates retention.

London's economy

Economic argument 1) Allowing London control over business rates will encourage wider economic growth for London and therefore the rest of the UK economy.

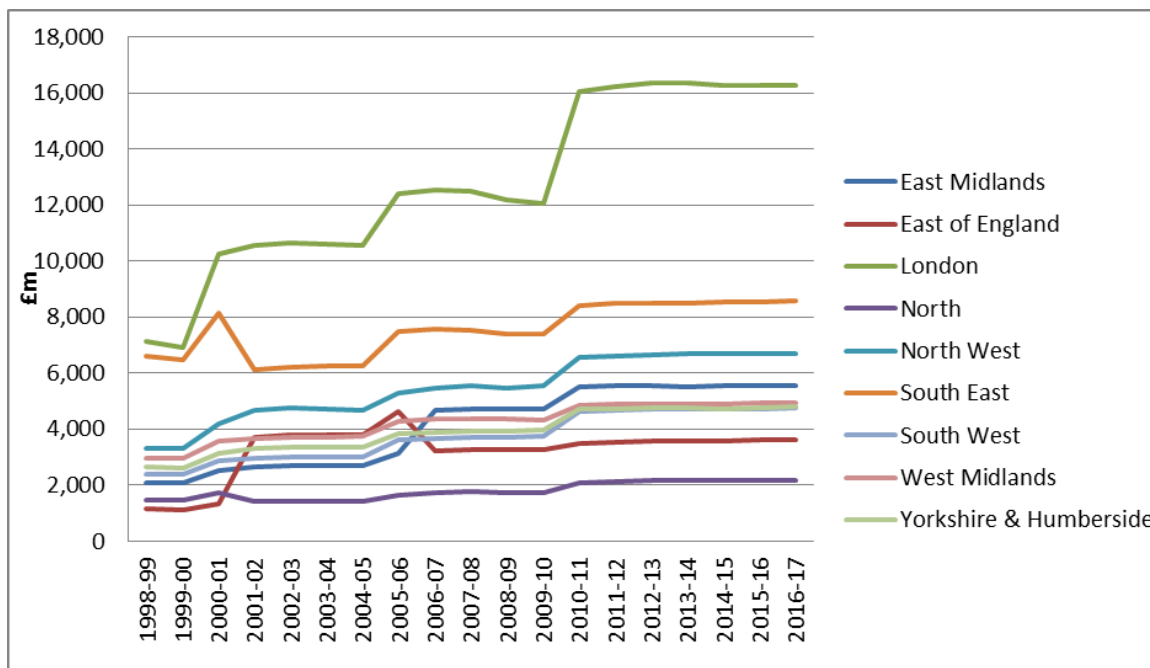
25. London's role as a financial and business centre has helped it lead the economic recovery. It is a centre for high productivity growth industries, such as professional and financial services, and the information and communications sector. London's international competitiveness in these markets is evidenced by the significant level of service exports (over £100 billion) that it achieves and its trade surplus with the rest of the world. This economic activity results in significant fiscal surpluses to the country as a whole.
26. London generates significant levels of taxation, contributing £140 billion (over 20 per cent) of the UK's tax revenues in 2014-15, well in excess of the public expenditure devoted to London (£95 billion), leaving a net fiscal contribution of £45 billion.³
27. London is a global city competing with other global cities. Maintaining London's international competitiveness, particularly once the UK leave the European Union, is therefore crucial to economic activity and the fiscal stability of the country as a whole. The nature of many of the businesses in London is such that if they were to look to relocate elsewhere the choice would be another international city rather than another city or location in the UK. It is therefore in the best interests of the whole country for London's economy to remain strong.
28. London Government believes that a locally controlled business rates system for London would help deliver this, ensuring greater economic growth for London as a whole than one in which the parameters were controlled by central government. Freedom and flexibility to design a more responsive and sustainable business rates system in London, alongside other property taxes, will not only benefit public services in London but will encourage wider economic growth that will benefit whole UK economy.
29. Arguments in favour of re-balancing the economy by enhancing one area at the expense of others are misleading. Economic growth is not a zero sum game. Rather, London must be given the tools to unlock even greater growth for the rest of the country

³ HMT: Public Expenditure Statistical Analysis (PESA) data 2014.

Economic argument 2) decoupling London’s rates system from the rest of the country would prevent the perverse impact of London’s property market holding down values (and rates yields) in the rest of the country.

30. London accounted for 42 per cent of the national growth in RV in 2010: a trend that has persisted since the late 1990s. Chart 1 below shows that London as a region has consistently experienced far greater revaluation growth than other regions in the last 18 years. It is likely that this will continue for the 2017 revaluation with rating agents forecasting a significant increase in London but with rateable values expected to drop overall in England.

Chart 1 – Rateable Value by region – 1998-99 to 2016-17



Source: VOA

31. If these trends continue, under the current valuation system, we estimate that by 2040 almost 60% of all business rates income will be generated in London – double the current proportion.
32. Under the current system of revaluation, London’s disproportionately high valuation growth leads to a corresponding reduction in business rates payable elsewhere in the country at each revaluation. When business rates were only used to fund local government indirectly, the distributional effect of revaluations had no impact on councils. Under a national retention system, however, a relative increase in London’s rateable values would lead to an increase in London's aggregate tariff and a corresponding reduction in the growth rewards and incentives available to the rest of the country.
33. This is exemplified by looking at what the impact of 2010 revaluation would have been had London boroughs been taken out of the system. The overall national average growth in RV was 21% across England; this included an increase of 34% for London’s RV. Excluding London, the average growth across England was 16%. The resultant impact of London’s disproportionate growth was that 70 local authorities, whose growth was between 16% and 21%, saw their gross yield of rates decline when, had London been excluded, their rateable value and, therefore gross yield, would have grown. Table 1 below shows that London’s disproportionate growth held the multiplier down by around 2p, saving ratepayers outside London a collective £633 million.

Table 1 – Comparison of 2010 revaluation figures for local authorities outside of London excluding and including London from the multiplier calculation

	London boroughs included	London boroughs excluded	Difference
Total RV (£m)	40,270	40,270	0
Total Gross rates (£m)	16,390	17,023	633
Multiplier (£)	0.407	0.423	0.016
No. of LAs increasing gross yield:	117	187	70
No. of LAs decreasing gross yield:	176	106	-70

Source: London Councils' analysis of DCLG data

34. Table 2 below shows the impact at the regional level. Rather than reducing by £294 million the overall business rates yield would have been £339 million higher (a net difference of £633 million or 3.9 per cent). Each region would have benefitted by 3.9 per cent compared with what actually happened in 2010-11, with the South East and North West standing to gain the most in net terms (as a result of their higher starting base position).

35. This shows how the current relative system of valuation, whereby London's underlying economic growth continues to outstrip the rest of the country, has the perverse effect of keeping rate payers' bills lower (and therefore local authority business rates yields lower) in the rest of the country. If the same happens in 2017 (as is likely), business rates baselines will fall around the country outside London – ultimately making those local authorities more reliant on top-up grant, less self-sufficient and less able to benefit from growth in their areas. This clearly undermines the government's policy aim of using business rate retention to promote growth across the country as a whole.

Table 2 – 2010 Gross business rates yield by region - actual vs modelled excluding London (£m)

	2009-10	Actual values		Values if London had been excluded		Net difference (£m)
		2010-11	Change in gross rates (£m)	2010-11	Change in gross rates (£m)	
Rest of England	16,684	16,390	-294	17,023	339	633
North East	835	855	20	888	53	33
North West	2,673	2,671	-2	2,775	101	103
Yorks & Humber	1,899	1,911	12	1,985	86	74
East Midlands	1,568	1,426	-142	1,482	-87	55
West Midlands	2,088	1,971	-116	2,047	-40	76
East of England	2,268	2,248	-20	2,335	67	87
South East	3,552	3,416	-136	3,548	-4	132
South West	1,800	1,889	89	1,962	162	73

Source: London Councils modelling based on VOA data

36. London Government believes the tax base should be allowed to rise or fall in response to changes in the economy rather than to fit a pre-defined total. Whether local government then chooses to maximise income against that tax base, or to cut rates as RV rises, should be a matter of (local) political discretion and accountability.

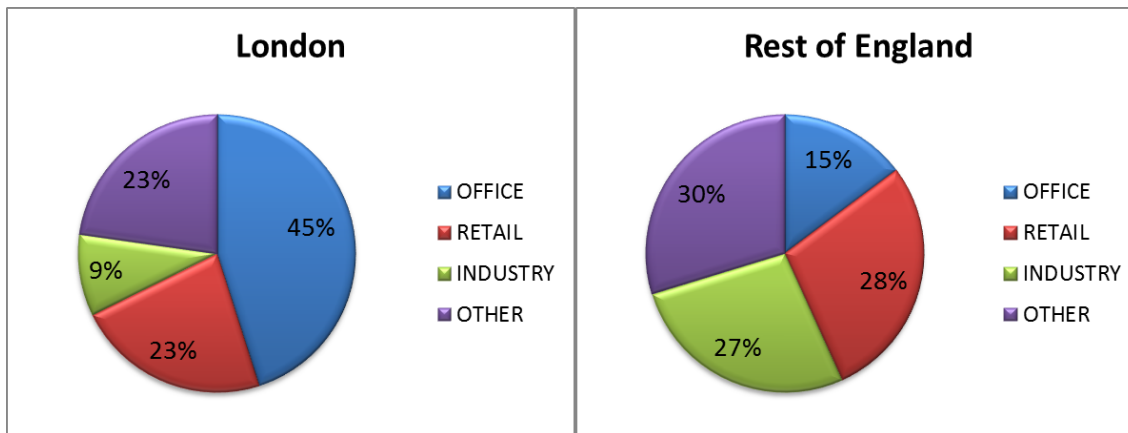
37. “De-coupling” London’s business rates system from the rest of the country would prevent the capital’s robust property market from continuing to distort the operation of the national system and to allow business rates baselines to increase outside of London at a rate which reflects local authorities’ own economic investment and growth.

London’s business rates tax base

38. Given the nature of London’s economy, its business rates tax base is very different to that of the rest of England. London has 16 per cent of the rateable properties in England but these represent 28 per cent of the rateable value (likely to increase to over 30 per cent after the 2017 revaluation). Chart 2 below shows almost half of the Rateable Value (RV) of London’s business rates tax base is accounted for by offices compared with just 15 per cent for rest of England; while industrial properties account for a much smaller proportion of London’s RV than the rest of England (just 9 per cent compared with 27 per cent nationally).

39. Within London, just four authorities (Westminster, the City of London, Camden and Tower Hamlets) account for 50 per cent of London’s total RV; and a third of London’s total RV is accounted for just by offices in these four authorities (£5.4 billion in 2015). This different make-up in RV, and the relative concentration of RV in offices in only a few boroughs, suggests that different tools and solutions may be more appropriate for London than for elsewhere in the country.

Chart 2 – Business rates tax base by sector - London compared with rest of England



Source: VOA, ‘NNDR Stock of Properties’, at 31 March 2015⁴

London’s unique public service pressures

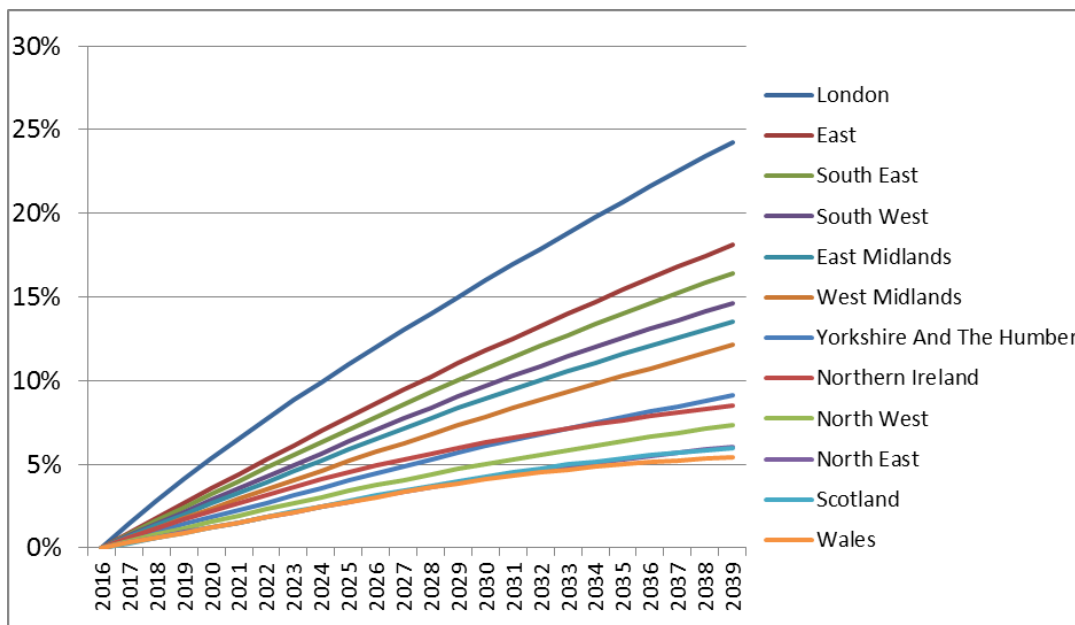
40. London’s demographic profile is notably different to the rest of the country, creating pressures on public services in the capital that are manifestly different from elsewhere. With some of the most deprived areas of the country sitting alongside the most affluent, London has some of the most complex social problems that come with being Europe’s largest and most diverse city.

41. It is the most ethnically diverse region in the country with more than a third of residents born outside the UK, and the highest proportion of households where English is not the first language (26 per cent). Its population is also more transient and mobile than the rest of England, meaning boroughs are serving populations with increasingly complex needs.

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/449291/NDR_Stock_of_Properties_Tables.xls

42. Overall, London continues to show significant relative deprivation: nearly two thirds of London’s lower super output areas (LSOAs) have above average levels of deprivation (according to the 2015 Index of Multiple Deprivation). Just under a quarter of London’s LSOAs fall within the most deprived 20 per cent of England.
43. Despite being the smallest region by area, London has the second largest population of the UK’s 12 regions (estimated to be 8.8 billion in 2016⁵). By 2020 it will have overtaken the South East to become the most populous region of the country, and by 2040 more people will live in London than Scotland, Wales and Northern Ireland combined. This population density creates unique challenges for public services in the capital, most notably in housing, transport and healthcare.
44. However, it is London’s disproportionate levels of population growth that really set it apart from the rest of the country when it comes to demand for public services. Over the period to 2039, London’s population is forecast to increase by 24% (to over 11 million), double the rate (12%) of the rest of England (see Chart 3 below).

Chart 3 – Estimated change in population by region – 2016 to 2039

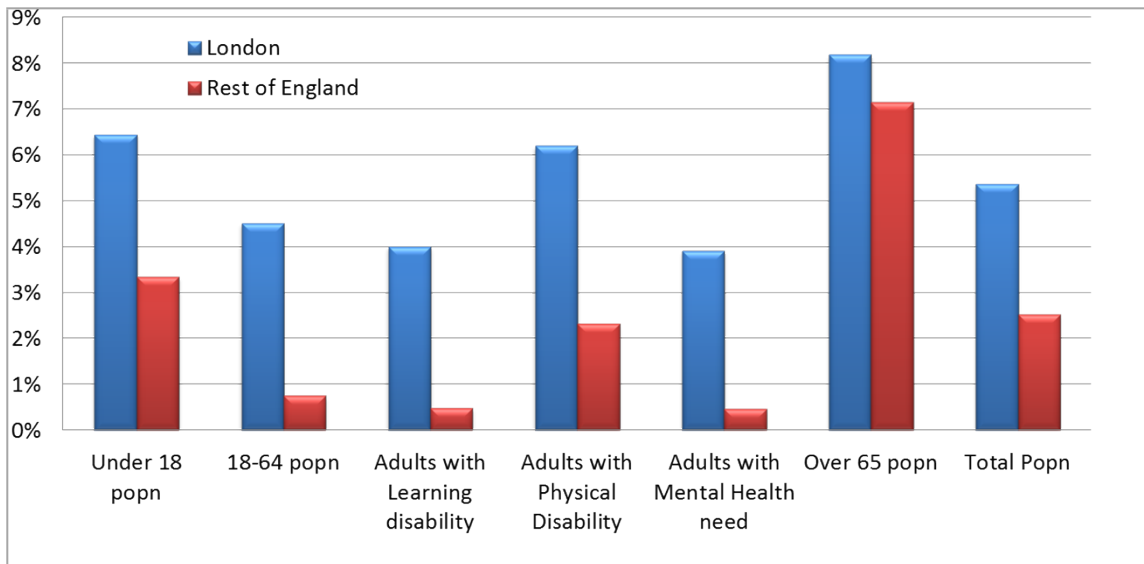


Source: ONS, 2014-based Sub-National Population Projections

45. Any new system of local government funding must therefore be able to respond to such changes, and the consequent increase in demand for services, in order to ensure sustainability over the long term.
46. In the more immediate future, the latest projection estimates forecast London’s population will rise from 8.8 million in 2015 to 9.3 million by 2020 (an increase of 5.4 per cent). This is more than twice the anticipated rate of increase for the rest of England (2.5 per cent) over the same period. London will account for 30 per cent of all population growth in England over that period. This disproportionate growth is across the board: Chart 4 (below) shows above average growth in every demographic cohort.

Chart 4 – Projected population growth – London v rest of England 2016-2020

⁵ 2014-based National and Sub-National population projections (ONS)



Sources: ONS, 2014-based SNPP; Projecting Adult Needs and Service Information (PANSI) data

47. London's larger relative working age population means that growth in adults aged 18-64 will have a particularly disproportionate impact in London (accounting for 56 per cent of the national growth in that demographic by 2020) compared with other areas. This will put pressure on services related to the working population such as skills, employment support and transport, but in particular will drive greater demand for adult social care.

48. Within London, in relative terms, larger than average growth in the 0-18 and the over 65 population will place noticeably bigger demands on London Government to deliver children's services and schools places, as well as health and adult social care for the elderly. Adults and Children's social care are by far the biggest areas of expenditure for local authorities – with some London boroughs spending over 70 per cent of their budget on social care. The far greater than average growth of adults with learning and physical disabilities, and those with mental health problems, will place huge cost pressures on the capital's social care budgets.

49. London Government believes it is imperative that London has stable and sustainable funding mechanisms that have the capacity to grow sufficiently to meet such rising demand.

London Government's vision for a London retention system

50. London's unique position as the driver of the UK economy and the very different demand drivers for public services means there is a strong case for delivering 100 per cent business rates retention differently in the capital. Government has recognised this by naming London as a pilot area to trial certain elements of the new system prior to the start of the full retention system. London Government will work closely with government to develop the London pilot from April 2017 onwards, however London Government wishes to go further than this and develop an autonomous business rates retention system. Our vision for how this would operate is set out below.

A. Retention level

51. London Government has consistently called for the full devolution of business rates to the capital. This was one of the recommendations of the 2013 London Finance Commission (along with further control of the full suite of property taxes), and is likely to be advocated in the 2016 London

Finance Commission, as part of a push for broader fiscal devolution. It was also a central ask in London Councils' 2015 Spending Review submission.

52. In 2016-17 the government expects London boroughs to collect £6.7 billion in business rates⁶, retaining half £3.4 billion, and paying a tariff of £345 million. London Government therefore retains around £3 billion - or 90 per cent of its local share of rates (45 per cent of the overall total business rates). By 2019-20 inflation alone would see the overall quantum rise to £7.3 billion and, with an estimated increase of around £1 billion due to the 2017 Revaluation⁷, the total by 2019-20 would be £8.4 billion.

53. Table 3, below, shows that London is likely to have headroom of around £4.0 billion by 2019-20: that is the amount by which business rates would exceed current spending responsibilities. Full retention in 2019-20 would, therefore, require London Government to finance additional responsibilities from business rates (beyond TfL grant already announced) for around £4.0 billion of services to match the available resources in order to be “fiscally neutral”.

Table 3 - Forecast London business rates post transfers and revaluation (£bn)

	2016-17	2017-18	2018-19	2019-20	2019-20 (post transfer of central share)
Total business rates	6.735	7.867	8.099	8.358	8.358
Central share	3.368	2.596	2.673	2.758	0.000
Retained share (BRB)	3.357	5.271	5.426	5.600	8.358
Baseline Funding	3.012	4.179	4.274	4.383	4.383
Tariff or “headroom”	-0.345	-1.092	-1.153	-1.217	-3.975
% of total rates retained	45%	53%	53%	52%	52%

54. It is important to reiterate that full retention of business rates would not result in London having extra money to spend on the same services being delivered elsewhere, but in London being required to deliver additional services that are currently delivered by central government departments and funded through other means (mainly by general taxation).

55. The issue of the percentage retained is inextricably linked with the question of the responsibilities that are transferred (see section B below). It is possible (without disadvantaging the rest of the country) to fund all of the services and grants proposed for transfer within the anticipated business rates to be collected in London with over £500 million left over (see Table 4 in section B below).

56. However, if the national approach to transfers requires a continued contribution from London to support services elsewhere, London Government would prefer one overall aggregate tariff to be paid to government each year, combined with the freedom for London to set its own tariffs and top-ups to distribute the remaining retained sum (see section D below). The aggregate tariff, would be calculated using a funding and business rates baseline for London as a whole (determined by a national reset by central government), and would be a share deducted from every London billing authority's business rates take (in a similar way to the central share currently), and then London Government would set top-ups and tariffs to balance to zero *within* London. This would effectively disentangle London from the national system except for an overall

⁶ This is calculated using the GLA's business rates baseline divided by 0.2 (its 20% retained share), to aggregate up to a total London business rates “target”

⁷ Current modelling suggests the overall RV could increase by around 30 per cent, meaning a corresponding increase in rates yield of around £1 billion.

aggregate needs assessment (funding baseline) and enable funding and business rates baselines to be set within London.

Ask 1 – London Government seeks to explore full retention of the business rates collected in the capital buy 2020; if London does not retain 100 per cent of its business rates, we ask that the tariff is one single payment at the aggregate London level

B. Additional Responsibilities

57. London Government believes, when determining the existing grants and new responsibilities that should be funded by business rates, priority should be given to responsibilities that maximise London Government’s ability to improve the life of Londoners, the effectiveness and efficiency of its public services, and the future economic success of the capital.

58. We would therefore wish to prioritise the transfer of grants and responsibilities that:

- have a direct relationship to business;
- help tackle key infrastructure challenges, including housing and transport; and
- have a compelling public service reform case to be delivered more efficiently and effectively by local government.

59. We believe the government should first consider the outcomes the sector is aiming to achieve, and then design local public services around them. This will require greater exploration of the funding necessary to deliver those outcomes. However, the list set out in the consultation document is a helpful starting point, which we have used to identifying grants and responsibilities we feel are suitable candidates to be transferred in Table 4.

60. The grants and responsibilities listed below are grouped by whether they are a new responsibility or existing grant, and then by which of the three principles set out above they meet. Estimated values for London in 2019-20 are set out in the fourth column.

Table 4 – Existing grants & new responsibilities - Suitable candidates for transfer in Addition to TfL Capital Grant

	Existing grant or responsibility	Principle	Estimated London value in 2019-20 (£bn)
Adult Education Budgets	New responsibility	Business link/PSR	0.227
Skills - 16-19 funding	New responsibility	Business link/PSR	0.449
Careers Service	New responsibility	Business link/PSR	0.009
Work and health programme	New responsibility	PSR	0.014
Youth Justice	New responsibility	PSR	0.054
Valuation Office Agency	New responsibility	PSR	0.05
Affordable Housing capital funding	Grant	Infrastructure	0.417
Transport capital (outside London)	Grant	Infrastructure	n/a
Revenue Support Grant	Grant	PSR	0.538
Public Health Grant	Grant	PSR	0.628
Early Years Block of DSG	Grant	PSR	0.748
Improved Better Care Fund	Grant	PSR	0.247

Independent Living Fund	Grant	PSR	0.019
Housing Benefit Admin Subsidy	Grant	PSR	0.033
Council Tax Support Admin	Grant	PSR	0.015
Rural services Delivery Grant	Grant	PSR	n/a
Total grants & responsibilities			3.448
Total “headroom” in 2019-20			3.975
Remaining capacity			0.527

NB: The RSG figure here is net of the GLA’s RSG which will be funded from business rates from April 2017. TfL Capital grant is also excluded as this will be transferred in 2017-18.

61. Table 4 includes all of the grants listed in the consultation document (with the exception of Attendance Allowance). In addition, (and in line with Adult Education Budgets which is mentioned as a devolved responsibility in Devolution Deal areas), we believe there is a strong argument for devolution of 16-19 skills funding, and National Careers Service funding, which have clear links to business and growth, and could be delivered more efficiently by local government.
62. The transfer of TfL capital funding in 2017-18 sets a precedent for other similar transfers under 100 per cent retention. The need to build more homes is the biggest issue facing London’s public services in the medium term. We believe there is a strong argument, therefore, for using business rates – as a relatively stable income stream – to fund affordable housing rather than relying upon grant funding from government.
63. We believe the government is right to consider the responsibilities already transferred to areas with devolution deals. Those areas have been able to show why they warrant the additional responsibility and have negotiated bespoke packages for their own areas.. We expect to see (and would support) devolution of a common core package of services funded from bus rates across the whole sector – but would want to see flexibility for additional transfers beyond that where feasible and appropriate. Some of the more universal elements of the existing devolution deals, which have a clear link to business and economic growth, lend themselves to being transferred to the whole sector for example Adult Education Budget and transport capital grants.
64. Table 4 shows London is likely to have more than enough business rates headroom to fund all of these responsibilities from 2019-20, however if a national solution requires an on-going London tariff, London’s priorities would be to transfer those responsibilities which best support its ability to promote growth and implement local public sector reform.

Ask 2 – London Government would prioritise the transfer (over and above what has already been decided) of:

- **Skills - 16-19 funding**
- **Adult Education Budgets**
- **Work and health programme**
- **Capital funding for Affordable Housing; and**
- **Early Years funding.**

Local control

65. London Government does not believe it is appropriate or acceptable to transfer the risk of future spending commitments that London Government is unable effectively to influence. Any transfer of responsibility must therefore be based on a realistic assessment of its in-built spending pressures and be accompanied by a corresponding devolution of policy control.

66. We therefore firmly oppose the transfer of Attendance Allowance to local government. The government has failed to propose an evidence-based argument for why this responsibility should be delivered by local government and not central government.

Beyond 2020

67. In support of broader ambitions for devolution and public service reform, London would also wish to continue exploring approaches that transferred service responsibilities – and appropriate revenue sources – above and beyond those that could be financed entirely by retained business rates beyond 2020. We believe this should be through devolution of further tax raising powers (in line with the likely recommendations of the 2016 London Finance Commission).

Ask 3 - London Government would wish to agree prior to the start of the 100 per cent retention system a robust mechanism for negotiating and agreeing with central government any new responsibilities that are to be delivered in the capital beyond 2020

C. Revaluations

De-coupling London

68. As set out in paragraphs 30-37 (above), there is a strong argument for de-coupling London's business rates valuations from the rest of the country in order to provide a closer link to economic conditions throughout the whole country and enable all areas to benefit from growth.

69. The 2017 revaluation is likely to lead to an overall increase in business rates in London – based on past trends and current information from rating agents' – whose forecasts have suggested underlying business rates liabilities for London ratepayers could increase by up to £1.1 billion in 2017-18 compared to 2016-17, due to the combined effect of the revaluation and the RPI uplift in the multiplier based on the assumption rateable values in London will increase by an average of 8% compared to a forecast reduction nationally. If such an outcome materialises once the valuations are published on 30 September this will have the perverse effect of keeping rate payers' bills lower (and therefore local authority business rates yields lower) in the rest of the country - ultimately making those local authorities more reliant on the top-up grant and less self-sufficient.

70. This clearly undermines the government's policy aim of using business rate retention to promote growth across the country as a whole.

71. London Government therefore believes sub-national areas that can show to government they are willing and capable of delivering devolved control of business rates should be allowed to retain the benefit of increases in their taxbase. The principal underpinning this argument is that the tax base should be allowed to rise or fall in response to changes in the economy rather than to fit a pre-defined total. Where RVs increase, local government could either (a) leave the multiplier untouched, and therefore raise greater resources to meet local needs; or (b) reduce the multiplier while maintaining spending; or (c) some combination/trade-off between the two. Whether local government then chooses to maximise income against that tax base, or to cut rates as RV rises, should be a matter of (local) political discretion and accountability.

72. Breaking the link between revaluation and the fixed quantum of tax yield benefits both those areas where commercial property markets are strong and those where they are not. In each of these

cases set out above – without increasing the burden on individual taxpayers – accountability and the relationship between local business and politicians will be significantly improved. It would also prevent the capital’s robust property market from continuing to distort the operation of the national system and to allow business rates baselines to increase outside of London at a rate which reflects local authorities’ own economic investment and growth.

Ask 4 - London Government asks for London’s business rates to be “de-coupled” from the national valuation system.

Keeping revaluation growth

73. Whether London’s valuations can be decoupled from a national system or not, London Government would at least want to see a system in which it was possible to retain some element of revaluation growth in order to correct one of the major defects in the current arrangements: the fact that growth is measured as physical rather than revaluation (underlying economic) growth.
74. One of the biggest reasons why there is a weak growth incentive in the current system is that growth is measured purely in terms of physical growth rather than taking into account any underlying revaluation or economic growth, even though the latter is likely to reflect increased profitability and therefore additional tax revenues for central government. This limits the ability of local authorities to benefit from the growth in rental values derived, in part, from their investment in making their local areas more attractive as a business destination, for example through incentivising businesses to locate there, improving the public realm and transport links. It also has the strange (in purely economic terms) impact of incentivising growth of businesses with large physical floor space and not necessarily businesses that generate high GVA.
75. While the estimated business rates tax take in London could increase by over £1 billion in April 2017, the government’s commitment to redistribution means that the GLA/Mayor and boroughs will derive no additional financial benefit (although they are likely to bear the brunt of any complaints from ratepayers). Meanwhile local authorities outside the capital have even less incentive to invest in their local business environment as any gains are stripped out by the redistributive impact of the national revaluation.

A London Valuation system

76. As set out above (paragraph 11), the impact of incorrect valuations leading to ratepayers challenging their rates bills through appeals is the biggest issue with the current retention system. This has significantly eclipsed any incentives local authorities have had to grow business rates and clouded any measurement of actual business rates growth.
77. London, with around 16% of the national business rates hereditaments, has seen a disproportionate level of total appeals against the 2010 ratings list (22%) and a £960 million provision for appeals at the end of March 2016 (32% of the national total).
78. There are structural weaknesses in the appeals process, which the “Check Challenge Appeal” reforms are trying to address. However there are more fundamental issues with the performance of the Valuation Office Agency that stem firstly from the valuation basis (meaning a high level of incorrect calculations to start with); and, secondly, in failing to deal with the backlog of appeals efficiently. Analysis of VOA data based on the position at 31 March 2016 shows the number of unresolved appeals as a percentage of the number of properties in the local rating list across the

33 London billing authorities ranged from just over 10% to as much as 40% compared to the England average of about 15%. The backlog is notably higher in central London boroughs where the materiality of any appeals will tend to be greater in financial terms. By contrast in Wales which has its own devolved arrangements the relative backlog was only 9%. A differential rate of appeals clearance means some local authorities have lost out financially relative to others – both in terms of higher appeals provisions and higher safety net payments until these appeals are cleared.

79. To address these issues, a more efficient and effective system could be established if London Government was given the ability to determine the basis of valuation and to administer the system through the establishment of separate London Valuation Office Agency. The exact process of valuation would be for London Government to determine collectively; however, this could include a system of self-assessment or a formula based system which could enable more frequent – ideally annual - valuations that would be more responsive to underlying economic conditions.

Ask 5 - London Government calls for the ability to determine its own valuation system to be administered by a regional valuation office for London.

D. Resets: balancing needs and resources

80. Finding the appropriate balance between risk and reward - meeting need and incentivising growth - is perhaps the biggest challenge in setting up the 100 per cent retention system. London Government recognises the need to have sufficiently long periods between resets of the business rates baselines to incentivise growth, whilst also ensuring that changing needs are recognised in the funding baselines on a regular basis. The government has proposed 'partial' resets of both funding and business rates baselines on the same timetable. Emerging consensus from the "systems design" working group is that 5 yearly partial resets (of both funding and business rates baselines) requires further exploration, but could form a suitable solution at the national level.

81. We believe that, within a London retention system, the frequency of resets should be determined locally by London Government. As such, we would seek to manage future resets of business rate and funding baselines taking into account the overall balance between spending need, council tax base, the speed of change and the desire to maintain incentives within a devolved system. We think that it may be possible to reset funding and business rates on different timetables, for example with business rates baselines being set over a longer period (10 years for example) and funding baselines being reset more frequently (every 3 years for example), and would explore options around this.

82. How resets within London relate to national resets will ultimately depend on the degree of autonomy a London retention system has.

Ask 6 – London Government calls for the ability to manage future resets of business rate and funding baselines, and their impact, within London.

83. London Government would advocate a system of equalisation continuing through tariffs and top ups but, as set out earlier (Ask 1), one where they balance to zero *within* London. If London was required by government to pay a tariff at the outset of the system, this would be paid collectively as a share rather than having individual business rates and funding baselines being directly set by the national assessments.

84. There is common agreement across the sector that any new needs assessment system should be less complex and more responsive to changes than the current system. A potential solution could involve a two-stage approach to assessing need. The first stage would be an assessment of needs at a suitable sub-national level, followed by a more local/sub-regional approach to allocate within these areas. London Councils has undertaken some initial analysis of how a two stage system could work in practice finding evidence to support the conclusion made by the Independent Commission on Local Government Finance that there is greater divergence within regions/sub-national areas than between them. The modelling suggests it is possible to allocate resources in a much more simplified and transparent way to these areas based primarily on population and deprivation variables.
85. In setting funding baselines within a London system, London government would not seek to invent a needs formula from scratch, but to be able to vary the individual assessments for London's local authorities from the national needs formula over time to reflect London's rapidly-changing circumstances, including significant issues such as housing need, population growth/churn and specific London cost pressures.
86. We would also wish to be able to determine locally the extent to which wider resource capacity (council tax raising ability) is taken into account and the extent to which any transitional arrangements may be necessary by, for example, providing a degree of transitional protection for boroughs and the GLA in both the transition from a national needs assessment to a local one, and indeed following local resets.
87. London Government believes a local solution for distributing funding would:
- be less complex and therefore more transparent;
 - be more responsive to population changes; and
 - give London boroughs and the GLA more collective ownership over the process and therefore would build trust that the system is fair.

Ask 7 – London Government proposes a two-stage process in which a regional needs assessment for the capital would be combined with the ability to vary a needs formula within London over time to reflect local circumstances.

E. Determining allocation of resources between tiers of London Government

88. The reforms to 100% business rates retention raise some important issues and questions for two tier areas. It is important for the reforms to be equitable, and for all tiers to work together to find the best possible solution.
89. In principle, it is our view that the allocation of resources in London should follow the responsibilities to be funded – as is proposed for 2017-18 where the GLA share is forecast to increase to 37% following the agreed transfer of TfL capital funding and the proposed transfer of the GLA's RSG. The final split of rate income between the Boroughs and the GLA should, as a starting point, reflect the agreed package of responsibilities undertaken by each. Any future revision of that split should be periodically agreed and managed by London Government, in line with changes in responsibility over time and any "resets" of the system.

Ask 8 – London Government asks for the ability to decide collectively for itself how business rates are shared between the boroughs and the GLA.

F. Setting Business Rates – flexibilities

Control over setting the multiplier(s)

90. London Government would wish to explore options for either a collectively agreed single multiplier across London, or two separate multipliers with the Mayor of London being granted the ability to set a proportion of the rate on a London wide basis, and boroughs collectively setting the rest of the multiplier. These two shares of the overall multiplier would be determined by the funding and retention split as set out above. We would want to explore the relative advantages and disadvantages of options for either a defined, periodically-reviewed split of income between the boroughs and the GLA, or for the establishing a separate Mayoral rate. Northern Ireland already operates a system incorporating a multiplier set province one and a separate one set locally, and we believe a similar arrangement would be possible in London and in two tier areas in the rest of England.

Ask 9 – London Government initially seeks the flexibility to determine the business rates multiplier(s) in London, agreed collectively between the Mayor and London’s borough Leaders over a defined period.

91. Following successful implementation of a London scheme, however, we would want to return to the issues of full control of rate setting – including the safeguards that would be required to prevent a disproportionate tax burden on business – along with a broader range of fiscal devolution as envisaged by the London Finance

The Infrastructure Levy

92. Short of being given powers to raise the overall multiplier, London Government – despite not being a Combined Authority area – would, at the very least, wish to be able to raise the 2% infrastructure levy offered to other areas. London’s infrastructure needs are different from those of the rest of the country London government considers that the Mayor of London should have the power to introduce an infrastructure levy in addition to the existing business rate supplement which is committed to fund Crossrail 1 until the mid-2030s. The legislation should provide for this to be possible even if this is not the Government’s current default policy position. If necessary, the Secretary of State could be given specific powers to approve the introduction of new levies for authorities not automatically eligible to fund specific projects – subject to appropriate consideration by the local LEP. The Business Rates Supplement (BRS) that funds Crossrail has been a large success, and shows how London’s property market can sustain additional taxation when the benefits of infrastructure development are made clear to businesses.

93. In addition, we believe there should be a broadly defined definition of “infrastructure” that includes affordable housing; and the structure and role of the LEP should be reviewed in London in relation to its role in the setting of the levy.

Ask 10 – London Government asks that the 2% infrastructure levy is made available to the Mayor of London.

Reliefs and Discounts

94. Mandatory reliefs awarded in London amounted to around £650 million in 2016-17, and are currently set by central government. London Government believes these could be used more constructively to improve local economies if devolved to London Government.
95. We believe London Government should have the collective ability to set the qualification criteria and thresholds of the existing mandatory reliefs currently set by central government (and the discretionary elements of those schemes), as well as determining new mandatory relief schemes periodically when deemed necessary. This would include the small business rates relief threshold. Where individual boroughs or the Mayor wished to offer additional discounts over and above a collective scheme agreement, this could be achieved through adjustments to their retained rates. We therefore believe the power to offer business rates discounts directly should be extended to the Mayor of London, where these were more generous than those being offered by billing authorities, although these would be paid for from the GLA share of retained rates.
96. Locally determined reliefs and discounts would encourage greater dialogue and engagement between London Government and businesses and empower local authorities to respond to the specific needs of their local economies, for example leading the regeneration of high streets and town centres by incentivising cafes, arts and culture spaces, workspace or civic uses. Collective control over reliefs would also facilitate more strategic planning to meet other statutory duties for example, by tailoring reliefs to incentivise the provision of healthy food retailers (rather than fast food outlets) they could help promote better public health outcomes.
97. These reforms could create a far stronger platform on which to increase incentives to support economic growth, promote broader policy objectives and link councils more closely to their communities.

Ask 11 – London Government seeks the flexibility for all parts of London Government to determine all business rates discounts and reliefs, including scheme parameters and thresholds

G. Distributing the benefits of growth

98. Under the current 50% retention system, boroughs in theory benefit from 30% of growth in rates in their area above the assumed baseline: 20% goes to the GLA and 50% to Government. In practice, the impact of appeals and the timing of the initial baseline calculations have meant that there has, to date, been no real correlation between boroughs' economic growth and business rates growth, and similarly between this overall business rates growth and retained business rate income.
99. These problems should, as far as possible, be designed out of the system in the transition from 50% to 100% retention. In the longer run, the retention and distribution system must be capable of delivering greater and more certain rewards if it is genuinely to incentivise growth.
100. The first, and most basic, option would simply distribute growth according to the retention shares between the boroughs and the GLA. Under a London system that continued, for instance, to have a 60:40 split between the boroughs and the GLA, any growth would continue to be retained in those proportions. However, were the Mayor and the boroughs to have separate multipliers which changed at different rates each year, the growth retention split between the boroughs and the GLA would vary each year depending on how their respective multipliers changed.

101. However, London's economy is a complicated system in which different parts of the capital will have different, but inter-related, roles to play. For the economy to keep growing in a sustainable manner, we need to expand the overall business premises capacity, but also to find ways to house, train, transport and provide access to leisure and culture for millions of people around the capital. We may therefore want to use some of the proceeds of growth to facilitate additional investment, and to create targeted rewards that incentivise contributions to the capital's overall success beyond hosting new business properties.
102. An alternative option could, therefore, see retained rates split into 3 shares:
- one for the individual borough;
 - one for the GLA; and
 - a third for an overall central pool to be distributed according to collective priorities.
103. The relative shares would be for the boroughs and the GLA to agree at the outset of the new system, and could be reviewed periodically in line with collective priorities. So if, for instance, London Government collectively agreed a pool share of 10%, again assuming a 60:40 starting split the remaining 90% would be split 60:40 between the individual borough and the GLA. The overall shares of any growth would therefore be 54:36:10 (boroughs:GLA:pool). A separate Mayoral rate, varied at a different rate to a borough rate, would again have an impact on the borough:GLA part of this split.
104. London Government would establish a robust governance arrangement prior to the start of the system to:
- agree the size of the pool share;
 - decide priorities for how it is used; and
 - decide mechanisms for its distribution.
105. Once the system is up and running, an ongoing governance/decision making forum would be required regarding the pool.

Ask 12 – London Government asks for the ability to determine collectively how the proceeds of growth are shared within London

H. Managing risk: Safety nets and the Central list

Safety Net Mechanism

106. If the move to 100% retention is to be successful then the need to share and manage risk effectively will be essential. London Government is supportive of introducing a devolved London pooling arrangement to manage risk and uncertainty and ensure resources are allocated in the most efficient way.
107. We support the Government's intention to end the system of levies on growth; however, it is important to ensure that authorities experiencing one off shocks to their rates base have the support of an appropriate safety net mechanism. If the issue of appeals could be addressed by managing a proportion of these centrally this would also serve to reduce the call on the safety net mechanism in future. Were London to establish a devolved business rates retention system, significant consideration would be given to how this safety net mechanism would work and,

importantly, to how it should be funded. Options include earmarking a proportion of a collective growth distribution pool or retaining an element of the rates income from a regional “London list” of infrastructure assets within the capital (see para 111).

108. However, we believe London’s future approach to managing risk should not be separated from the questions of the overall proportion of rates retained (see section A) or the degree of devolved control over the business rate taxbase (sections E to G). In essence, the greater the degree of autonomy, the more reasonable it will be to expect London to manage its collective risk for itself. Conversely, the more London remains part of a national system, and the more limited its control of the taxbase, the more London should expect to look to Government to share some of that risk.
109. Under a fully devolved London retention system, therefore, in which 100 per cent of the rates were retained in the capital, London Government would expect to manage and fund the safety net mechanism. Under a system whereby London continued to pay a tariff to fund the rest of the sector, we would expect to share the funding of a London safety net with the rest of the sector.

Ask 13 – Under a devolved retention system, London Government asks that the safety net mechanism and thresholds are determined locally by London Government

Reducing the central list as far as possible

110. The central list has been identified as a potential source of funding for future safety net arrangements. Where responsibility for such arrangements is devolved, it would be appropriate also to maximise local access to the rates derived from properties currently held on the central list. London Government considers that, unless there is a clear case for an assessment to be on the central list, it should therefore sit on a local list. This would also increase opportunities and incentives to maximise the value and use of such assets where possible.
111. For example, the central list currently includes a large proportion of Transport for London’s network and rail infrastructure, including the London Underground, DLR and TfL station car parks, which could be transferred to the local rating list, so that London could retain the full benefits of the investment it makes to improve the capital’s transport infrastructure.
112. Alternatively it TfL’s assessments could be moved to an area or London regional list in order that the capital can benefit from all of the business rates growth arising from transport investment. TfL also considers there would be operational efficiencies from combining these onto a single assessment. Responsibility for collecting any rates due from the London area list including the TfL assessments could be given to a single London billing authority but the entire proceeds should be made available London wide, potentially via the London redistribution pool.
113. There may also be an argument for separating out those parts of the Network Rail assessment which are now administered by TfL – for example the TfL rail and London Overground assessments – to be transferred over as well. This is an option which we would be keen to explore, at least in relation to station infrastructure including car parks even if it is not practical to transfer the actual rail network elements.

Ask 14 - London Government would seek to transfer central list properties to either a local or regional list wherever possible, including the transfer of TfL’s separately identifiable assessments potentially as a single TfL operational assessment.

I. Governance

114. A regional approach to managing business rates in London will require appropriate mechanisms to ensure that robust, timely and accountable decisions can be taken to raise and distribute tax revenues. In return for the level of devolution and autonomy London Government is asking for, central government will require reassurance that London is capable of governing such a system collectively. The governance structures and decision making mechanisms will, therefore, be vital.

Building on existing structures

115. London Government is well placed to develop a collective governance model to enable a devolved business rates retention system. London is the only region in England with a regional tier of government. London's 33 local authorities and the Mayor of London have developed a mature relationship that has gradually evolved since 2000.
116. London Councils is the representative body for the 32 London boroughs and the City of London Corporation. Its Leaders' Committee is its main decision-making body. The Committee includes the Leaders of each London borough council and is chaired by the Chair of London Councils. Meeting eight times a year, Leaders' Committee sets policy and takes decisions on the latest developments affecting London local government. There is also a smaller cross-party Executive Committee which guides the organisation's day-to-day work.
117. In 2010 the Mayor of London and Chair of London Councils agreed the London City Charter, which called on Government to "recognise the maturity, efficiency and accountability of London's unique system of self-government and to take decisive steps to devolve further powers, responsibilities and fiscal capacity to London's elected governments"⁸. The Charter established the regular meetings of the Congress of Leaders, which currently meets at least twice a year, whose membership consists of the Mayor of London, the Leaders of each London Borough and the Chairman of the Policy & Resources Committee of the City of London Corporation. This has formed the basis of joint decision making between the two tiers of government ever since.
118. Deputy Mayors from the Greater London Authority attend as observers and to support the Mayor. The Congress of Leaders therefore consists of thirty four members who represent their own mandate but also consider both the city-wide and local interests of London. The Congress is chaired by the Mayor, with the Chairman of London Councils as the Deputy Chair of the Congress.

Decisions required to set up and run a devolved retention system

119. The proposals set out in this paper generate three classes of decisions for London to Government address:
- **Initial set-up:** decisions and agreement with Government on the scheme design, including the level of retention, responsibilities transferred, the basis and frequency of revaluations, and resets, the allocation of resources between GLA and boroughs, the multiplier(s), the framework for discounts and reliefs, the distribution of growth proceeds, the operation of a regional safety net and a regional list. Such decisions

⁸ <http://www.londoncouncils.gov.uk/download/file/fid/11161>

would need to be taken collectively – and unanimously – by the Mayor of London and Leaders.

- **On-going tax-setting and resource allocation:** annual decisions such as setting the multiplier(s) and allocating the collective growth pool; periodic decisions such as agreeing revised baselines and changes to the needs formula. These decisions would need to be taken collectively by the Mayor and Leaders, building on the existing Congress arrangements, with appropriate voting and other principles consistent with the London Finance Commission in 2013, built in to ensure the appropriate protection of minority interests within London.
- **Technical underpinning and review:** it may require two independent technical commissions to manage on-going work around valuation (including the performance of a regional VOA) and the operation of the tax, and around maintaining the needs formula and distribution model. Political oversight of these commissions could be undertaken by the Governance structures described above.

Existing principles

120. The London Finance Commission identified a set of principles upon which such governance could be based. These were expanded in evidence submitted to the CLG Committee inquiry into fiscal devolution in April 2014. These governing principles are as follows⁹:

- **Each element of London government should have a stake:** Elected leaders of all London local authorities and the Mayor of London must be able to feel confident about the governance arrangements for the new finance system
- **No exclusion:** No one borough or group of boroughs can be excluded from the benefits of London's success or become disempowered from addressing local needs.
- **No over-riding:** Interests of the Mayor cannot be overridden by the boroughs or vice versa.
- **No deadlock:** Arrangements must prevent or break deadlock. We believe that this can be achieved through suitable voting arrangements and clarity about which tier of government is responsible for decision-making, as reflected in the principles below.
- **Enforcement:** The system must enforce binding decisions and these decisions must reflect a clear initial consensus – even if there are disagreements from time to time about individual decisions.
- **Simplicity and clarity:** The reformed system should be as simple as possible. It should avoid the need for annual decision-making between different sections of London government. It should seek to distinguish clearly the responsibilities of the GLA, Boroughs and London Assembly.
- **Stability...** Existing responsibilities should be maintained where possible.
- **... But potential for reform.** Provisions in the 'devolution settlement' should enable, by agreement, periodic property tax reform and changes to any within-London distribution arrangements. Such reforms would be distinct from the 'Day 1' operation of a devolved system. There should also be a presumption that the more significant reforms were proposed, the longer they would be phased in.

⁹ Extract from a joint letter from Boris Johnson, Mayor of London and Mayor Jules Pipe, Chair of London Councils to Clive Betts MP, Chair of the Communities and Local Government Committee, 10 April 2014, submitted as evidence to the Committee's review of Fiscal Devolution

- **Practical operations:** decisions would be taken by the Mayor or Borough politicians as appropriate. However, a joint GLA and London Councils Officer Group would provide standing technical advice and support for politicians to decide matters where there is significant joint interest under the above arrangements. This might be independently chaired.
- **Decision rules:** Any new system would require a set of decision rules, some of which would be reflected in legislation. For instance, Parliament might legislate for periodic property revaluations to be carried out by devolved authorities. There are various options for the rulebook governing changes within London following devolution but here is one example:
 - Mayor would need to agree any decision and by converse would have a veto
 - Boroughs would need to agree to any decision by their own rules (e.g. two-thirds majority)
 - The London Assembly would retain its existing powers to amend or reject the Mayor's tax and spending decisions, which would be enhanced commensurate with the increase in the Mayor's powers.

121. The Mayor of London has re-formed the London Finance Commission 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. We will follow the work of the commission closely, and anticipate that it will re-visit the governance principles outlined above in the context of recommendations on broader fiscal devolution.

London Government will work with government collectively build on these principles to define and establish appropriate governance arrangements to manage a devolved business rates system.

APPENDIX 1 – Detailed responses to the consultation questions

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

122. London Government favours prioritising the transfer of responsibilities that maximise its ability to improve the life of Londoners, the effectiveness and efficiency of its public services, and the future economic success of the capital. We therefore favour transferring in grants and responsibilities that:

- have a direct relationship to business;
- help tackle key infrastructure challenges, including housing and transport; and
- have a compelling public service reform case to be delivered more efficient and effectively by local government.

123. As stated above (section B), we believe the government should first consider the outcomes the sector is aiming to achieve, and then design local public services around them. This will require greater exploration of the funding necessary to deliver those outcomes. London Government supports the grants and responsibilities listed in Table 4 being transferred to local government. Of the existing grants listed in the consultation, this includes:

- Revenue Support Grant
- Rural Services Delivery Grant
- Transport for London Capital Grant
- Public Health Grant
- Improved Better Care Fund
- Independent Living Fund
- Early Years funding
- Youth Justice funding
- Local Council Tax Support Admin Subsidy & Housing Benefit Pensioner Admin Subsidy

124. London Government does not believe it is appropriate or acceptable to transfer the risk of future spending commitments that we are unable effectively to influence. Any transfer of responsibility must therefore be based on a realistic assessment of its in-built spending pressures and be accompanied by the corresponding devolution of policy control. As such, we are united with colleagues across the sector in our opposition to the responsibility for providing Attendance Allowance (or a similar such welfare benefit) being transferred to local government. We firmly believe this should remain centrally administered by the Department for Work & Pensions.

125. The government has provided no detail about how this would work if devolved to local government or the levels of control and influence the sector would have over the scheme, or any evidence that the in-built spending pressures this would bring has been considered. This is disappointing given

the size of the funding involved (£5 billion nationally), and the likely increase in demand for this benefit that will result from an aging population. There is therefore no reason to suggest business rates as a funding stream, and local government as a sector, would be better placed to deliver this benefit than central government through general taxation.

Question 2: Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

126. London Government believes the following grants and responsibilities should be devolved to those areas that are ready and willing to take them on (subject to sufficiently robust governance arrangements being in place) as part of the business rates reforms:

- Capital funding for Affordable housing;
- Careers Service;
- Skills funding for 16-19 year olds;
- funding for the Work and Health programme; and
- the Valuation Office Agency.

127. We would, therefore, welcome further discussions with government regarding the practicalities of delivering these.

128. London Government is aware the Valuation Office Agency (VOA) is currently partly funded from the Local Government Resource DEL (£161 million nationally in 2016-17). In order that the VOA is made more responsive and accountable to London Government for decisions and performance that directly affect the income and financial risk of boroughs and the GLA, we would favour the creation of a devolved Valuation Office for London – either as a separate administrative body or a regional office - which would focus solely on business rates and council tax valuations and appeals within London. This would ensure that the VOA was directly accountable to London Government (see section C above for further details) for its performance particularly in relation to the administration of appeals. As such, we believe the grant funding provided to the VOA from within the Local Government Resource DEL should be considered for transfer under the 100 per cent retention system. London's share of the £161 million would be roughly £50 million – which equates to less than 6% of the provisions set aside for appeals refunds by London billing authorities in their 2015-16 accounts.

Question 3: Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

129. London has a unique governance and administrative structure within England, being the only region with a regional tier of government. As such there are no combined authorities in the capital.

130. However, as set in section D above, London Government would favour moving to managing the distribution of business rates revenues on a regional basis in the capital alongside whatever package of devolved funding and responsibilities is ultimately agreed. This would facilitate closer

co-operation between the capital's local authorities and ensure that resources are targeted more effectively taking into account local circumstances.

Question 4: Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

131. We believe the transfer process should prioritise those things local government as a whole has already said it wants. These are inevitably reflected in existing devo deals. For example, all existing deals include elements of skills and employment: it would be perverse not to fund this area through business rates more widely.
132. We agree that Adult Education Budgets and transport capital grants should be included as they both have clear links to business and economic growth. TfL capital funding and bus services operators funding are already (or will be by April 2017) funded through business rates in London. However, we do not believe Local Growth Fund money should be included, as this is a finite resource for one off projects rather than funding for ongoing services. We believe the same principle applies to investment funds, which should therefore also be excluded.
133. London Government renews our ask for the devolution of the Adult Education Budget, as well as funding for the Careers Service and 16-19 skills, with agreement to be reached by the end of 2016-17 (ideally with a commitment made in the 2016 Autumn Statement). We envisage 2018-19 would be a shadow year with full devolution secured from 2019-20. This is subject to a resolution of our outstanding concerns in relation to the proposed changes to the Adult Education funding formula which may be disadvantageous to London. We would therefore welcome dialogue with DCLG and the DfE as to how this budget might be devolved and what restrictions may be put in place in relation to the future use of this funding.

Question 5: Do you agree that we should continue with the new burdens doctrine post- 2020?

134. London Government agrees that the new burdens doctrine should continue beyond 2020. Local government should be given access to adequate resources - either through central government funding or through additional tax-raising capacity – to deliver any new responsibilities or deal with changes of circumstance resulting in increased funding pressure on existing responsibilities (that would also constitute new burdens). We would envisage that these would initially be funded through s.31 grants, having been assessed as new burdens in the same way as now.
135. Whether these grants continue as separate funding streams or “rolled in” to funding baselines at future resets will be an important decision for any future government. London Government believes that, any new burdens that are rolled in to the system should be transferred with corresponding freedoms and flexibilities to raise the equivalent levels of funding, for example the power to raise the multiplier, or (if this is already permitted), further tax raising powers (in line with the recommendations of the London Finance Commission).
136. As set out above (Ask 4), London Government would wish to agree prior to the start of the 100 per cent retention system a process for negotiating and agreeing with central government any new responsibilities that are to be delivered in the capital.

CHAPTER 4

Growth and redistribution

Question 6: Do you agree that we should fix reset periods for the system?

Question 7: What is the right balance in the system between rewarding growth and redistributing to meet changing need?

Question 8: Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

137. As set out above (section D), London Government recognises that a balance must be struck between incentivising growth - by ensuring that growth (including revaluation growth) is retained for a meaningful length of time - and providing a sustainable level of resource for all local authorities to deliver services - by updating needs assessments regularly. We believe London Government should be able to determine that balance between risk and reward in London by being able to reset business rates and funding baselines for the authorities in the capital.
138. If government retains control over national resets, London Government agrees with the principle that reset periods should be fixed prior to the start of the 100 per cent retention system. Any alternative, whereby government changed the reset periods on an ad hoc basis, would cause too much uncertainty for local authority funding.
139. We believe that it is desirable, and should be possible, to reset needs (funding baselines) and resources (business rates baselines) on different timescales. On the funding side of the equation, it is desirable that baselines reflect changing levels of need on a regular basis – this is particularly relevant in London where population growth and churn is far higher than many other parts of the country. However, on the resources side of the equation, it is preferable to reset business rates baselines less frequently – in order to retain a strong growth incentive. The government should, therefore, explore resetting funding and business rates baselines on different timescales (and any devolved London system would explore these options).
140. However, within the resources side of the equation, we recognise that overly long reset periods could be problematic. Since developments can take a number of years to be agreed and built – often requiring existing buildings to be demolished – a long reset period (10 years for example) is logical. At the same time, we recognise the need to protect authorities that, through no fault of their own, see their business rates base altered significantly through the impact of a single large ratepayer or a one off economic shock, by resetting their business rates baselines within a reasonable time period so that they can regain the financial incentive to grow their rates income. We believe the government’s suggestion of partial resets should therefore be explored further, and would welcome further detailed modelling to show how this could work, and the potential impact that different degrees of “partiality” would have on the system (i.e. varying the percentage from 50% proposed in the consultation). Again, any devolved London system would explore options around partial resets.
141. We would also favour business rates resets being aligned with revaluations, so that local authorities are able to predict revenues over a set period without further turbulence being introduced into the system.

Redistribution between local authorities

Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

142. London Government agrees that the current system of tariffs and top ups should be maintained. The arrangements work relatively well and are broadly understood across the sector.
143. As set out above (section C), we believe a devolved London business rates retention system would benefit London and the rest of the country. Within such a system we would continue to equalise through tariffs and top-ups in the same way as the national system, however we would control to set business rates and funding baselines within London so that tariffs and top-ups balance to zero within London and, if London were to continue to pay an aggregate tariff, this would be paid as a share by all boroughs.

Impact of revaluations

Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

144. There is an inherent difficulty with the current system of revaluation in that it acts as a redistributive mechanism rather than being one which is responsive to changing absolute level rental values. In effect the total business rate take for England is fixed at whatever level the Government determines it should be rather than being a buoyant tax where revenues move proportionately in line with the growth in property values. A notable exception to this is the Crossrail Business Rate Supplement where revenues rise in direct proportion to the increase in rateable values – ensuring that those ratepayers benefitting from increases in property values as a result of infrastructure investment make a greater contribution towards its financing over time.
145. As set out in section C above, London Government believes the tax base should be allowed to rise or fall in response to changes in the economy, rather than to fit a pre-defined total. Breaking the link between revaluation and the fixed quantum of tax yield benefits both those areas where commercial property markets are strong and those where they are not. It would also prevent the capital's robust property market from continuing to distort the operation of the national system and to allow business rates baselines to increase outside of London at a rate which reflects local authorities' own economic investment and growth. As a result, the accountability and the relationship between local business and politicians will be significantly improved.
146. However, in the event that the current national arrangements are maintained, including the fixed quantum, London Government agrees that there should be an adjustment to retained incomes for individual authorities to cancel out the effect of future revaluations.
147. However, as set out above (section C, paragraph 74), because growth does not include revaluation growth local authorities see no benefit from investing in making their local areas more attractive as a business destination. London Government believes a proportion of revaluation growth should be retained at revaluations. This would reflect the fact that rising relative rental values and business rates income are also likely to be matched by relative increases in revenues from central government taxes – including stamp duty, income tax, corporation tax and VAT. In effect the Treasury sees the gains in tax revenue – but the relevant local authorities do not see the additional benefit in respect of business rates income.

148. This could be financed either using a proportion of central list revenues or via a top slice within the overall local government finance settlement.

Combined Authority Mayoral Areas – Additional Powers

Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

149. As set out at length in the first half of this response, London Government would favour moving to a fully devolved system with the Mayor and the leaders of the 33 local authorities taking over responsibility for the allocation and distribution of resources within an appropriate governance structure. It would be odd for the nature of the existing devolution arrangement in London to result in the Mayor and Leaders of London not having the same flexibilities (e.g. infrastructure levy) available to other mayoral areas. We therefore consider that London should receive at least the same additional incentives as will be offered to combined authorities outside London whether or not they have a Mayoral structure.

Tier Splits

Question 12: What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?

150. As set out above (section E, Ask 8) we believe the final split of responsibilities should determine the retention shares between the GLA and the boroughs within London.
151. The current 50% local share of business rates income is apportioned between the GLA and the 33 London billing authorities on a 40% to 60% ratio. This was subject to a local agreement between the GLA and London Councils acting on behalf of the 33 billing authorities. Indeed London was the only part of the country where a different tier split was negotiated and agreed with central government.
152. At the time of negotiation it wasn't known what the final balance of funding would be between the two tiers, which ultimately ended up at around 67%:33%. The GLA therefore became a tariff authority taking a higher share of London's rates income (40%) than the GLA's share of baseline funding within the system (approximately 33%). This has meant the GLA has taken on a greater level of risk if rates income falls albeit for greater potential reward if there is growth against its baseline – in recognition of its ability to spread upsides and downsides across all 33 billing authorities.
153. London Government considers that the tier split in the capital has worked relatively well – and provides a suitable starting point on which to build up to 100% retention, subject to addressing issues such as business rates appeals.
154. With effect from April 2017 – following the rolling in of the £960 million TfL capital grant and £148 million of the GLA's RSG – London Government supports the consequential 17% increase in the GLA's share to 37% and a reduction in the central share to 33%. The final tier split following 100% retention will be agreed by London Government taking into account the funding and responsibilities devolved to each tier.

Fire Funding

Question 13: Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?

155. London Government opposes transferring London's fire and rescue funding out of the business rates retention system in London. This need not prevent a different treatment in the rest of England, where responsibility for this function is being transferred to Police and Crime Commissioners in 2017.
156. It is our understanding from Government officials that any transfer in of the GLA's RSG in 2017-18 to the rates retention system would be subject to the proviso that this would not preclude any fire and rescue and policing elements being moved out of the retained rates system and paid for instead via Home Office grant in light of the transfer of responsibility for fire services to Police and Crime Commissioners outside London. The GLA is also unique in having an element of police funding within the rates retention system relating to MOPAC's notional share of the Mayor's council tax freeze grant allocations from 2011-12 onwards.
157. It is the Mayor of London's strong preference, however, that fire and rescue funding in the capital should continue to be paid through the rates retention system in recognition of the different administrative arrangements which will exist compared to the rest of England – even if fire funding in the rest of England is paid via Home Office direct grant. This would also facilitate better joint working across London Government including with MOPAC, TfL and the GLA if fire funding formed part of a wider Mayoral resource.
158. This different treatment would not in our view prevent the Home Office making redistributive changes to needs allocations for fire services as these could simply be adjusted for in the case of the GLA annually through a revision to its tariff payment either upwards or downwards with a corresponding transfer of funds between Government departments. Similarly the element of resources for London policing – approximately £35 million should in our view remain within the rates retention system – on the expectation that the Mayor would continue to pass this onto the Mayor's Office for Policing and Crime as is set out in the Mayor's proposed budget for the next three years. This relates to prior year council tax freeze grant revenues – and it is the Mayor who is responsible for setting council tax levels for policing in London outside the City of London.

Lessons Learned From Enterprise Zones

Question 14: What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

159. London Government is supportive of the principle of using enterprise zones and designated areas to provide the certainty of funding required to support large-scale infrastructure and transport projects. Such designations are being used effectively in London to date to finance the infrastructure needs of the Croydon Growth zone, the proposed new Thameslink station at Brent Cross in Barnet, the Royal Docks in Newham and the Northern line extension to Battersea Power station. The Government should continue to operate these areas outside the retention system in line with the statutory designations already approved by Parliament and ensure that no changes are made which might undermine those schemes already in place.

160. However, it is important to recognise that EZs hypothecate income that is therefore not available to be redistributed to meet needs. Under a devolved London retention system, London Government would expect to be able to decide collectively any future EZ-type arrangements to support specific infrastructure investment or other growth-promotion schemes – via the London growth redistribution pool if appropriate.
161. As mentioned above (Q10), we would also support the Government introducing a mechanism whereby local authorities were able to retain part of the growth in rates income at a revaluation while continuing to provide protection to areas seeing reductions in bills via the tariff and top up mechanism. Under the regulations in place enterprise zones and other designated areas are able to retain any revaluation related growth.

Sharing Risk, Appeals and Future Position of Central List

Question 15: Would it be helpful to move some of the ‘riskier’ hereditaments off local lists? If so, what type of hereditaments should be moved?

162. London Government considers that unless there is a clear and evident case for an assessment to be on the central list it should be on a local or regional list (as set out in section H, ask 14). This would improve local accountability and enhance the capacity and responsibility of local government to promote all types of economic growth within its area – and, within a devolved regional system – to share the risk of economic decline.
163. We would, therefore, oppose proposals that would, for example, move airport assessments such as Heathrow Airport onto the central list or indeed local power stations or other complex assessments. Planning functions will continue to reside locally and such assessments are also important sources of local employment linked to other supplies and the wider economic base of a locality.
164. We also note that in London requests for transfers to the central list were submitted in London in 2010 following the introduction of the Crossrail BRS – as business rate supplements and the proposed new infrastructure levy can only be charged on assessments on the local list. This strengthens the case for minimising the size of the central list to ensure ratepayers benefitting from infrastructure and transport projects locally are required to contribute towards their costs.

Question 16: Would you support the idea of introducing area-level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

165. As set out above (Ask 14), we believe a regional or area-level list could be appropriate in London. This clearly supports regional devolution, for which we are in favour, and would promote greater collaboration between TfL and the boroughs to incentivise growth for which the whole of London could gain if this was linked to a London wide pool. It could also, potentially, provide some capacity to manage collective risk through a regional safety net.
166. At present TfL’s rail infrastructure network (e.g. London Underground, DLR, London Overground and in due course Crossrail) and stations (including station car parks) are on the central rating list either independently (LU and the DLR) or as part of the Network Rail cumulo. This means that all rates income and related growth is paid to the Government – rather than to London local

authorities. Given TfL's capital investment grant is to be moved into rates retention, it would be logical for all TfL's assessments to be moved either to the local rating lists of the 33 London billing authorities or to a regional London list, so London can benefit from all of the business rates growth arising from the transport investment it makes.

167. There may also be an argument for separating out those parts of the Network Rail operational assessment which are now administered by TfL – for example TfL rail which will in due course become the Elizabeth (Crossrail) line and London Overground assessments – to be disaggregated and moved to a regional list.

Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area level (including Combined Authority), or across all local authorities as set out in the options above?

Question 18: What would help your local authority better manage risks associated with successful business rates appeals?

168. As set out above (section H), London Government believes risk should be managed at regional level for the capital – provided sufficient control over the system to manage the risk is devolved: if it were not, then some of the risk would have to be shared with central government. In a devolved London retention system, whereby London Government had control over setting business rates – administered by a regional VOA for London – we would expect to manage the appeals risk within the capital.
169. However, under a continued national system, we consider that appeals relating to errors made by the VOA – so called “tone of the list” appeals with an adjustment date going back to the commencement date of the list – should be funded centrally by the Government. ‘Tone of the rating list’ amendments to property valuations have nothing to do with physical changes on the ground and do not arise from local decision making – and the associated costs should not, in our view, be borne locally while central government retains oversight and responsibility for the VOA.
170. As part of its long term review of business rates the Government highlighted the difficulties which can arise when large numbers of appeals are lodged by ratepayers resulting in there being a large backlog. Ratepayers face delays in having their appeals assessed and local authorities face significant uncertainty under the rates retention system as a result of having to set aside significant sums in provisions in order to meet potential refunds to ratepayers which may not ultimately materialise.
171. The aggregate provision for appeals across all 33 London billing authorities as at 31 March 2016 exceeds £925 million. We remain very concerned that the current backlog of appeals on the 2010 rating list in London is significantly higher than the national average in both absolute and relative terms. Progress on reducing this backlog also appears to have been much slower in the capital particularly in central London.
172. As illustrated in Figure A1 below, the number of unresolved challenges at 31 March 2016 equated to 22 per cent of all hereditaments on the rating list in London – more than 50 per cent higher than the national average and nearly 250% higher than in Wales which operates its own revaluation and tax setting arrangements In the City of London the number of outstanding challenges to the rating list at 31 March 2016 equated to 40 per cent and in five other boroughs (Harrow, Hillingdon, Tower Hamlets and Westminster) exceeded 30 per cent respectively of the total number of

hereditaments in those areas. While there have been some reductions since that date, the refocusing of VOA resources onto the 2017 revaluation has meant that the backlog has barely moved in some billing authorities as further appeals have been lodged subsequently.

Figure A1 - Unresolved Appeals as % of Total Hereditaments on the 2010 Local Rating List (English regions and Wales) as at 31 March 2016

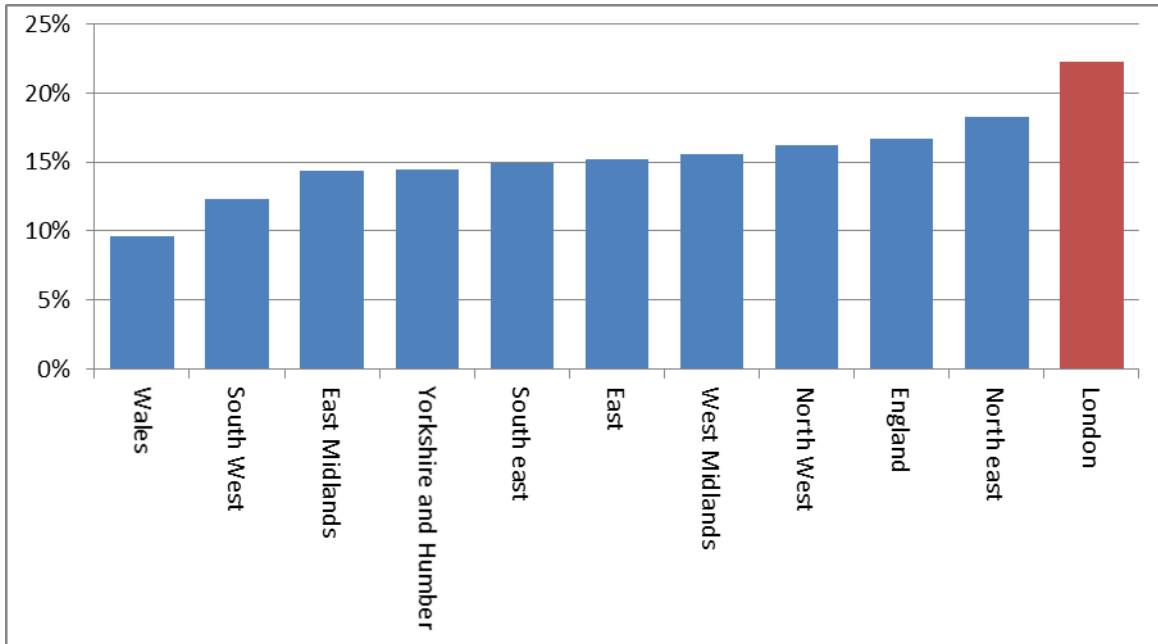
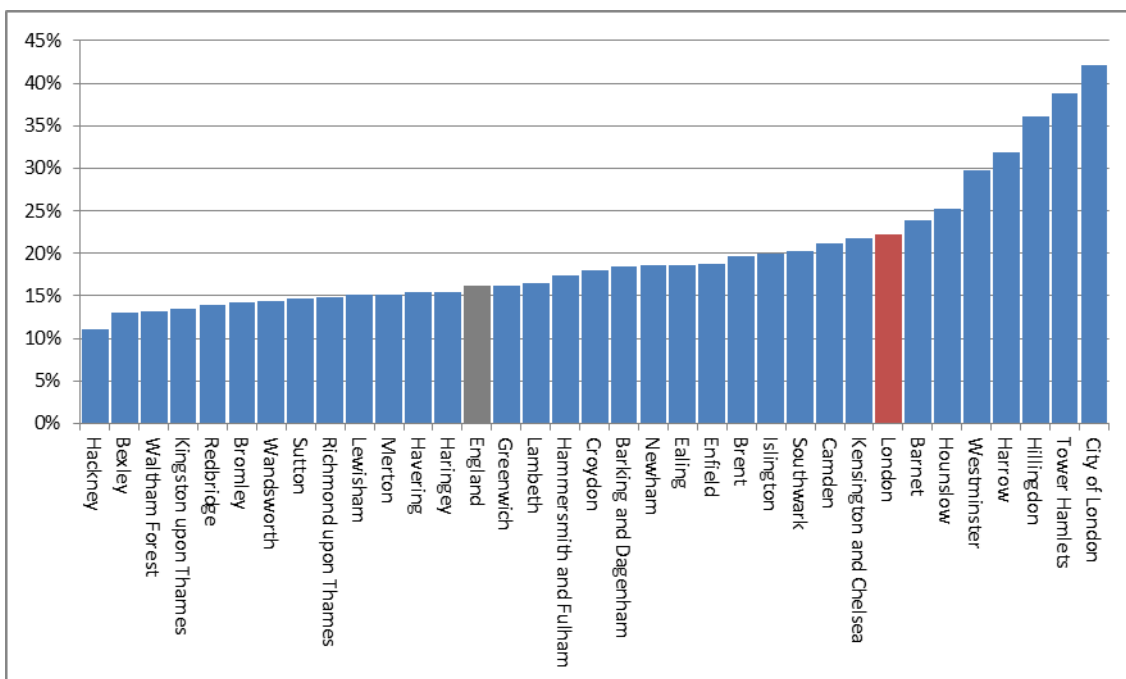


Figure A2 - Unresolved Appeals as % of Total Hereditaments on the 2010 Local Rating List (London Billing Authorities) as at 31 March 2016 – London Boroughs & England



Source: VOA Statistics

<https://www.gov.uk/government/statistics/non-domestic-rating-challenges-and-changes-england-and-wales-march-2016-experimental>

173. This backlog has both local and national implications given that the Corporation of London, the London boroughs of Tower Hamlets and Hillingdon and Westminster City Council – which

continue to have amongst the largest backlogs in England as a proportion of their rating lists – account for nearly 15 per cent of the national business rates tax take. Indeed at current levels of progress it is unlikely that the backlog in those billing authorities will be cleared before 2019-20 or later.

174. In advance of the introduction of the new 2017 rating list, we would urge CLG and HM Treasury as the sponsoring departments to ensure that the Valuation Office – working closely with the Valuation Tribunal and rating agents – seeks to prioritise clearing the outstanding rating appeals across London as at 31 March 2016 as soon as possible. This is essential in order to provide certainty both for the businesses appealing and for local authorities in setting their future budgets and determining realistic forecasts of rating income.
175. Similarly we consider that, for the 2017 revaluation period, the clearance rates for appeals should be consistent across all English regions and billing authority areas in the interest of fairness to ratepayers and local authorities. This means that any new targets set for the VOA must focus not just on the number of appeals outstanding but the materiality of the assessments under appeal i.e. the focus for any clearance target should be on the scale of rateable value being appealed.
176. We trust that the Government will monitor the success of the new 'Check Challenge Appeal' system and consider making further reforms if it does not result in a reduction in the volume of appeals for the 2017 rating list.

Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?

Question 20: What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

177. London Government would favour introducing a devolved system and managing such risks as a regional level. However, as set out above, this is dependent on the level of devolution of control over the parameters of the system. In essence, the greater the degree of autonomy, the more reasonable it will be to expect London to manage its collective risk for itself. Conversely, the more London remains part of a national system, and the more limited its control of the taxbase, the more London should expect to look to Government to share some of that risk.
178. Under a fully devolved London retention system, therefore, in which 100 per cent of the rates were retained in the capital, London Government would expect to manage and fund the safety net mechanism. Under a system whereby London continued to pay a tariff to fund the rest of the sector, or where a national valuation system remained, we would expect to share the funding of a London safety net with the rest of the sector.
179. Within a devolved system, the level of income protection should be a matter for local determination. However, if a national system remained, we would support the retention of a national safety net mechanism set at a percentage of baseline funding. We believe the government should consider options whereby different tiers of authority may have different safety net thresholds depending on their gearing and service responsibilities, with protections to avoid authorities reducing rates income via changes to provisions deliberately to go into a safety net situation.

180. In the interim (before the start of the 100 per cent retention system), there is a strong argument for the safety net threshold (currently 92.5% of baseline funding) to be reassessed. As RSG reduces towards 2020, Baseline Funding will become a larger proportion of a local authority's Settlement Funding Assessment. Government should therefore consider whether the safety net threshold should be raised to 95% or another figure.

CHAPTER 5

Altering the Multiplier – Decision Making and Scope of Powers

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

181. London Government would want to explore the relative advantages and disadvantages of options for establishing a separate Mayoral rate alongside one for the 33 billing authorities (see section F, ask 9, above). The choice between such approaches should, ultimately, be a matter for London Government, but we believe the basic principle should be that the costs should align with accountability for the decision.

182. The Government should, therefore, design primary legislation which permits flexible local approaches with any detailed arrangements being a matter for secondary legislation which can evolve and be amended more easily over time.

Question 22: What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

183. London Government believes the powers to reduce the multiplier and to offer discounts are both potentially valuable, but as tools to address different issues.

184. Reducing the multiplier could (subject to tax competition concerns) be a way to address the overall attractiveness of the business environment in a given area – in a world where local government was retaining revaluation growth it could also offer a way in which business in general could share in the benefit of overall growth in business efficiency and success.

185. Discounts, on the other hand, offer more targeted tools to support particular sectors (for example to small businesses or charities) or local areas (for example high streets) – or to incentivise broader policy objectives such as promoting public health or environmental sustainability).

186. London Government would wish to explore options for either a collectively agreed single multiplier across London, or two separate multipliers with the Mayor of London being granted the ability to set a proportion of the rate on a London wide basis, and boroughs collectively setting the rest of the multiplier. These two shares of the overall multiplier would be determined by the funding and retention split as set out above. We would want to explore the relative advantages and disadvantages of options for either a defined, periodically-reviewed split of income between the boroughs and the GLA, or for the establishing a separate Mayoral rate.

187. We believe London Government should have the collective ability to set the qualification criteria and thresholds of the existing mandatory reliefs currently set by central government (and the discretionary elements of those schemes), as well as determining new mandatory relief schemes periodically when deemed necessary. This would include the small business rates relief threshold.

Where individual boroughs or the Mayor wished to offer additional discounts over and above a collective scheme agreement, this could be achieved through adjustments to their retained rates

Question 23: What are your views on increasing the multiplier after a reduction?

188. Under the proposals as currently set out, in order for local authorities to have the power to lower the multiplier, the Government will presumably need to set a baseline national non domestic multiplier, which authorities will vary their local rates against, to be updated annually (presumably by RPI until 2019-20 and by CPI from 2020-21 onwards).
189. The consultation paper highlights the challenges that might arise were a local authority to decide to reduce its multiplier below the notional national multiplier but then determine at a later date that it wished to reverse this in full or in part. It is the view of London Government that this should be a matter for local decision and that authorities should be permitted to revert back to the national multiplier in a single financial year – irrespective of the reduction made in prior years.

Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

190. As set out above, London Government would also wish to explore options for either a collectively agreed single multiplier across London, or two separate multipliers with the Mayor of London being granted the ability to set a proportion of the rate on a London wide basis, and boroughs collectively setting the rest of the multiplier. A similar arrangement already operates successfully in Northern Ireland. These two shares of the overall multiplier would be determined by the funding and retention split as set out above. We recognise delivering this this would pose administrative challenges, but consider it desirable that there should be a legislative mechanism which facilitates a London wide approach to setting all or part of the multiplier agreed collectively by the Mayor and boroughs. We would want to explore the relative advantages and disadvantages of options for either a defined, periodically-reviewed split of income between the boroughs and the GLA, or for the establishing a separate Mayoral rate.
191. The Government will also need to consider whether the Secretary of State should have intervention powers in exceptional circumstances – recognising that any safety net payment mechanism could be used to mitigate the effect of local decisions and that authorities would still need to meet their fixed tariff payments as now.
192. The Government will also need to consider what the implications the new system would have for NNDR reporting, accounting and budgeting – for example would there need to be a review of the NNDR 1 reporting timetable to facilitate an earlier tax setting process and, under a multi-tier approach, would preceptors with tax setting powers be able to determine their own business rates appeals provisions (as an example) and other deductions?

Infrastructure levy for Mayoral Combined Authorities

Question 25: What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?

193. London Government believes the levying authority should have the power to set the threshold – which may well vary dependent on the nature of the infrastructure project being funded. In practice, we consider that a £50,000 threshold in the current BRS legislation is appropriate in the

capital for any levy introduced, however we would want to reserve the right to review this for future levy proposals.

194. To date only the Greater London Authority has used the BRS Act powers to finance £4.1 billion of the costs of the Crossrail project - £800 million as a direct contribution and £3.3 billion of borrowing which will be financed and repaid by the mid-2030s using BRS revenues. The Crossrail BRS has been set at a rate of 2p since April 2010 with a qualifying rateable value threshold of £55,000.
195. We recognise that, were there to be a similar blanket £50,000 threshold for the infrastructure premium, the sums that could be generated in BRS in areas with lower tax bases than London would inevitably be much lower. Lower thresholds may therefore be appropriate for other parts of England to ensure that the tax base is sufficient to raise an adequate level of revenues.

Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?

196. London Government considers – subject to the support of the business community – that the Mayor of London should have the ability to introduce a levy to fund a specific project in addition to the Business rate supplement which is committed for Crossrail until the mid-2030s.
197. We consider that the areas eligible to introduce the levy should be determined via secondary legislation so that the tax can evolve over time to changing local government structures.
198. In our view the BRS Act should be retained and expanded to include the ability to levy both supplements – where supported by business and, if necessary, the Secretary of State to fund a specific major project. This would, in our view, provide sufficient flexibility to allow the Mayor of London to operate both supplements where there was clear support.
199. We would have reservations about introducing a wholly new piece of legislation to deliver what is likely to be a similar tax in structure – the only practical difference being the mechanism by which the introduction of the supplement must be approved. There are also several pieces of existing secondary legislation which were required for the BRS relating to the accounting, administration and collection arrangements – which could equally be applied to the new levy.
200. If the Government decides to develop separate legislative arrangements for the new levy, there is a risk that there could be difficulties in maintaining and updating two separate legislative processes. London Government has, for example, experienced difficulties in securing amendments to the existing BRS regulations on a timely basis.
201. In our view, there should be a single piece of legislation building on the BRS Act 2009 and associated regulations with the proviso that no amendments are made which would undermine the existing Crossrail BRS, which is required to finance the repayment of £3.3 billion of GLA debt.
202. We would also support an amendment to section 10 of the BRS Act (<http://www.legislation.gov.uk/ukpga/2009/7/section/10>) to ensure that, where a levying authority opts to make a variation to the policies not set out in the final prospectus which merely result in a reduction in the tax rate or number of ratepayers liable to the BRS, this should not automatically trigger a ballot of ratepayers. The current wording has prevented the GLA from raising its £55,000 threshold for the BRS between revaluations as it did not foresee in 2010 that the Government

would delay the next revaluation until 2017. Tax reductions should not trigger automatic ballots in our view.

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

203. London Government believes business rates devolution provides a real opportunity to promote greater accountability of local politicians for business rates decisions and build more meaningful engagement with the business community. As such we have concerns that the London LEP - in its current form – should be responsible for approving infrastructure levies. Government must undertake a review of the governance and structures of LEPs to ensure they are fit for purpose and are accountable to business and local areas.

Question 28: What are your views on arrangements for the duration and review of levies?

204. We consider that the arrangements should operate on a consistent basis with the BRS – once the decision has been agreed by the LEP (subject to a review of LEP governance structures). The levying authority/Mayor should be required to report annually to the LEP and ratepayers – as applies to the BRS – but, unless there are any fundamental changes which are inconsistent with any final prospectus introduced before implementation, the annual review and approval of the levy should be a matter for the elected Mayor to determine.

205. In terms of the duration of any levy the Business Rate Supplements (Accounting) (England) Regulations 2010 as currently worded prevent a BRS being used for projects such as Crossrail where the payback/debt repayment period exceeds ten years. This needs to be amended for the BRS and reflected in the regulations for the new levy to ensure that longer term schemes can be funded via the new levy as well as the GLA's Crossrail BRS which have a debt repayment date of 25 years or longer.

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

206. The Government has stated that the new premium must be applied to fund 'new infrastructure'. The 2009 BRS Act requires that business rate supplement revenues must be used to support economic development priorities (i.e. revenue or capital) but explicitly excludes expenditure on:

- Education and children's services
- Social services
- Delivering planning functions and
- Housing

207. The legislation for the levy will need to be clear what authorities may use the infrastructure premium for. London Government would favour extending the 'infrastructure' definition to include projects which fund the provision of affordable housing in areas of high cost/high demand where there is support for this from the business community. It should also be able to be used to upgrade existing infrastructure as well as deliver 'new' infrastructure.

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

208. We believe it should be possible to have multiple levies funding different projects across the combined authority and/or London area, providing that the appropriate prospectuses have been consulted on and approved for each scheme.
209. A BRS must be levied on a consistent basis across the levying authority area and, therefore, it is not possible to apply a higher rate in billing authorities (or other defined localities) where ratepayers were most likely to benefit from the proposed investment (e.g. they have stations on the proposed rail, metro or tram link). This differs from the community infrastructure levy where differential rates are permitted within a billing authority and in the case of the Mayor of London's CIL between London boroughs.
210. There may also be a case to permit levying authorities to apply different rates for the levy across their area in proportion to the estimated benefits from the infrastructure projects being funded from the levy (e.g. for a transport project ratepayers in areas on the rail/tram route would pay a higher rate) as applies for the Community infrastructure levy.
211. This would need to be agreed collectively through London Governance/combined authority arrangements, but would ensure that those ratepayers who benefit most from any investment pay the largest contribution. This might also be a mechanism which could facilitate multiple projects being funded from the levy across an area – as otherwise it will only be practical to use it to fund very large regional schemes where there is a clear benefit right across London or the combined authority area.

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

212. We would welcome a dialogue with Government to see what lessons can be learned from the success of the Crossrail BRS in London before the new levy is introduced. We would also be keen to review the BRS Act and associated regulations to ensure they remain fit for purpose and provide a solid basis to 'bolt on' the proposed new levy.
213. Other questions which the Government will need to consider include:
- Does the initial prospectus, consultation and final prospectus model for introducing a BRS provide a suitable model for the infrastructure premium?
 - Should the levying authority be able to depart from its final prospectus variation powers without recourse to a further consultation process where it is simply proposing reducing the tax rate or the number of ratepayers liable?
 - Should reliefs operate in parallel to NNDR on a pro rata basis and should empty properties and BID areas be eligible for a more generous treatment subject to the determination of the levying authority as applies for the BRS?
214. London Government considers that the BRS has worked well in London and the Government should seek to replicate similar arrangements for the new infrastructure levy – via a bolt on to the existing BRS Act rather than a completely separate piece of legislation. We endorse the initial prospectus, consultation and final prospectus model used for the BRS as a basis for the development of any future levies.

215. Before levying a BRS, levying authorities are required to prepare an initial prospectus - which prior to the localism act merely had to be consulted upon but thereafter had to be put to a ballot of eligible ratepayers – and a final prospectus. The items required to be included in the prospectus are set out in schedule I of the Act. A copy of the Crossrail BRS final prospectus is available at https://www.london.gov.uk/file/5474/download?token=oCSh_HNt
216. We also favour a consistent approach on reliefs between NNDR, BRS and the new levy. Reliefs for the BRS operate on a consistent and pro rata basis with ratepayers’ national non-domestic rating bills with two exceptions. Firstly, the levying authority may exempt all empty properties as a class from paying the BRS – irrespective of their eligibility for empty rate reliefs – and, secondly, it may apply an offset to reduce the BRS liability for ratepayers in business improvement districts (BIDs).
217. The Act also permitted business improvement districts to charge property owners a levy subject to a ballot where local ratepayers were subject to a BRS (so called ‘BRS-BID’ levies under Schedule II). This latter policy has not been adopted so far in practice given the difficulty of identifying property owners although two BIDs in central London have expressed an interest in introducing such a scheme.
218. We would also support an amendment to section 10 of the BRS Act (<http://www.legislation.gov.uk/ukpga/2009/7/section/10>) to ensure that, where a levying authority opts to make a variation to the policies not set out in the final prospectus which merely result in a reduction in the tax rate or number of ratepayers liable to the BRS, this should not automatically trigger a ballot of ratepayers. London Government would also support a review of the accounting and year end reporting arrangements for the BRS set out in the current secondary legislation as well as given local areas to agree different arrangements for apportioning cost of collection allowances to reflect the fixed costs which many smaller billing authorities incur. Details on these proposals have already been submitted by the GLA with the support of billing authorities.
219. Section 18 of the BRS Act requires the levying authority to give written notice to each billing authority in its area prior to the financial year for which it intends to impose a business rate supplement. Levying authorities are also required to provide an annual update to ratepayers for annual billing. This should be maintained and required for the new levy as well.

Ch.6 ACCOUNTING AND ACCOUNTABILITY

Balance of Local and Central Accountability

Question 32: Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

220. London Government firmly believes that devolution of funding and tax raising powers to fund the services local authorities deliver will improve local accountability – provided it comes with genuine devolution over control of those powers and of the services and responsibilities that will be transferred. Specifically in relation to business rates, a devolved London retention system would, in our view, strengthen the relationship between London government, businesses and local communities, and improve accountability of locally elected politicians to their electorates.
221. As set out in paragraphs 9-22, the current funding system breeds uncertainty; is too complex and lacks transparency; and is too centralised with a lack of local control. These issues must be

addressed if local government is to be put on a sustainable financial footing over the long term, in a world where business rates and council tax will fund almost all local government services from 2020.

222. We welcome the recent multiyear settlement, and the degree of certainty this brings (although it is really only RSG that is guaranteed over the next 4 years, which is a diminishing part of the overall funding of local government). True multiyear, medium term financial planning will only be possible under the 100 per cent business rates retention system if reset and revaluation periods are set over time periods that provide funding certainty, and if local authorities are given greater freedom over other elements of the finance system such as the setting of fees and charges and council tax. The annual capping of council tax constrains one of the levers local authorities have over their ability to raise resources and restricts council tax setting policy to an annual timeframe.
223. The timing of settlements under the current system has proved a particular barrier to certainty. For the last four years, the settlement has been announced extremely late in December. While there may be reasons for this, and it may be helpful for central government, it creates significant uncertainty for local government over funding assurance needed to set their budgets and council tax levels for the following financial year. We believe the new finance system should be set up to give local authorities as much time as possible in order to deliver robust budgets that have been through thorough scrutiny processes.
224. Specifically in relation to the timetable of the business rates retention system, the government should review the arrangements for completing NNDR1 (budget) forms (or their equivalent under the new system), which aren't sent out until January giving a very short time period for completion. In addition, deadlines for completing the NNDR3 (outturn) returns should be brought forward to late April/early May – the latter being essential to deliver on the earlier accounts closure timetable from 2017-18.
225. Greater certainty can only be achieved by less interference from central government. The recent legislation impacting on the Housing Revenue Account is an example of significant changes in government policy creating huge uncertainty in local authority budgets. Authorities had established long term (30 year) plans under the “self-financing” reforms, which were subsequently rendered meaningless as a result of the mandated social rent reduction and ‘higher value void’ levy. Genuine devolution must mean genuine relinquishing of central control.

Question 33: Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

226. London Government believes that the current imbalance of power between local and central government in control over local public services must be redressed. The London Finance Commission (2013) concluded that “London’s government needs to be given greater freedom to determine and use the resources raised from taxpayers”¹⁰. It set out a vision of more accountable and sustainable way of funding public services. London (and, indeed, England as a whole) is an extreme outlier compared with other cities and countries, with only 7 per cent the taxes raised determined by the city’s government: the equivalent figure in New York is over 50 per cent.

¹⁰ Raising the Capital (2013):

https://www.london.gov.uk/sites/default/files/gla_migrate_files_destination/Raising%20the%20capital_0.pdf

227. We believe the current default assumption, that Central Government must retain a high degree of control in the name of accountability, must be reversed and move instead to a world where local government is responsible for determining the level of spending and investment it needs to meet local priorities, and for raising the funding to meet that need. The primary accountability should be between local government and its electors and taxpayers. In short, decisions should be made as close as possible to residents and service users, and should be local by default.

Accounting for Local Tax Income

Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

228. London Government believes the requirement to prepare a Collection Fund Account should be maintained. The Collection Fund Account brings transparency to the different payments that are made to distribute the rates collected by authorities. However, we consider that authorities should be able to use the collection fund adjustment account to manage variations in income including safety net payments to ensure that authorities do not end up building up artificially large reserves to meet future sums owed.

229. Under the current arrangement, any Collection Fund loss (or surplus) does not impact on the General Fund outturn until one or two years after they are incurred. Although this may be partly beneficial for authorities, as it allows them longer time to deal with the losses, it is not aligned with the system of levies and safety net payments, which are accounted for in the year of the loss/surplus. This is then likely to mean that the authority has a high level of reserves set aside to fund the loss in future years as it impact on the General Fund bottom line.

230. We believe that the timing differences between the revenue and CFAA accounting treatments for unexpected variations in NNDR yield should therefore be harmonised.

Calculation of Balanced Budget Requirement

Question 35: Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

122. There is an argument for requiring local authorities to approve a financing requirement – including retained rates income - rather than council tax requirement, as this better reflects the reality of setting local council budgets, in which overall spending is set at a level to meet the resources available, rather than council tax being set at a level to meet desired spending. This would partially reverse the changes made through Part 5 Chapter 1 of the Localism Act 2011 – prior to that Act local authorities agreed a budget requirement including general government grants. This change would require consequential changes to the GLA Act and the Assembly amendment powers in relation to the Mayors budget.

Collection of business rates data

Question 36: Do you have views on how the business rates data collection activities could be altered to collect and record information in a more timely, efficient and transparent manner?

231. London Government supports retaining the current NNDR1 and NNDR3 reporting arrangements – albeit the timetables for both should be earlier than now. The detail as to how this will operate

should be considered further by the Accounting working group in consultation with CIPFA and the IRRV.

APPENDIX 4 – SUMMARY OF LEWISHAM BUSINESS RATES IN 2015

