APPENDIX 2 - Memorandum of Understanding between London Government and Central Government

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Memorandum of Understanding on the London 100% business rates retention pilot 2018-19

Department for Communities and Local Government

LONDON COUNCILS

MAYOR OF LONDON

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Rt Hon Sajid Javid MP
Secretary of State for Communities and Local government

....

Sadiq Khan
Mayor of London

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Rt Hon Greg Hands MP
Minister for London

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Cllr Claire Kober
Chair, London Councils

Department for Communities and Local Government

LONDON COUNCILS

MAYOR OF LONDON

100% Business Rates Retention Pilot 2018-19 Agreement for London

Introduction

1. In the Spring Budget 2017, the London Devolution Memorandum of Understanding[1] included a commitment to exploring options for granting London government greater powers and flexibilities over the administration of business rates, including supporting the voluntary pooling of business rates within London, subject to appropriate governance structures being agreed.

2. This Memorandum of Understanding confirms the commitment by the Government, the Mayor of London and London local government to pilot the principles of 100% business rates retention in 2018-19 through a pan-London business rates pool. It sets out the terms by which the local authorities listed at **Annex A** will pilot 100% business rates retention.

3. This agreement comes into effect from 1 April 2018 and expires on 31 March 2019.

Pilot principles

4. The pilot pool will be voluntary, but will include all 32 London boroughs, the Corporation of the City of London and the Greater London Authority ["the London authorities"].

5. From 1 April 2018 the London authorities will retain 100% of their non-domestic rating income[2]. They will also receive section 31 grants in respect of Government changes to the business rates system which reduce the level of business rates income. Section 31 grant will amount to 100% of the value of the lost income. Tariffs and top-ups will be adjusted to ensure cost neutrality.

6. In moving to 100% rates retention, the Department for Communities and Local Government will no longer pay Revenue Support Grant to the London authorities in 2018/19. The value of these grants in 2018/19 is set out in **Annex B**.

7. The London authorities will not be subject to more onerous rules or constraints under the 100% rates retention pilot, than they would have been if they had remained subject to the 67% scheme in place in 2017-18 reflecting the

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[1] https://www.gov.uk/government/publications/memorandum-of-understanding-on-further-devolution-to-london

[2] As defined in the Non-Domestic Rating (Rates Retention) Regulations 2013 (SI2013/452) (as amended).

incremental impact of the Greater London Authority's partial pilot as a result of the rolling in of its revenue support grant and the Transport for London investment grant. No "new burdens" will be transferred to London and participation in the pilot will not affect the development or implementation of the Fair Funding Review.

8. Levy and safety net payments due from/to the London business rates pool will be calculated, in accordance with the Non-Domestic Rating (Levy and Safety Net) Regulations 2013 (SI 2013/737) (as amended), as if the London authorities were not 100% pilots, but instead were operating under the 50% rates retention scheme adjusted for the GLA's partial pilot for 2017-18 which is continuing as part of the pool and increased the locally retained share to 67%.

9. However, notwithstanding the calculation of levy and safety net payments under the Regulations, the Government will calculate levy and safety net payments due from/to the London business rates pool on the basis that it has a "zero" levy rate and "safety net threshold" of 97%, and that the London authorities will be retaining 100% of London's business rates income. The difference between any sums due under this calculation and the levy/safety net due under SI 2013/737 will be paid to the London business rates pool via a section 31 grant.

10. The piloted approach is to be without detriment to the resources that would have been available collectively to the 34 London authorities under the current local government finance regime, over the four year settlement period. This includes current 67% scheme growth retained under the retention pilot, and reflects Enterprise Zones and "designated areas" where the designations made by the Secretary of State came into force on or before 1 April 2018, along with other special arrangements, such as the statutory provision to reflect the unique circumstances of the City of London Corporation.

Distribution of any financial benefit

11. The 34 London authorities will prepare a framework agreement for the operation of a pilot pool in which:

    - each authority will receive at least as much from the pool as they would have individually under the existing 67% retention scheme;
    - 15% of any net financial benefit will be set aside as a "Strategic Investment Pot" (see paragraphs 13 and 14); and
    - the resources not top-sliced for the investment pot will be shared between the GLA and the 33 billing authorities (the 32 boroughs and the Corporation of London) in the ratio 36:64, in accordance with the principle previously

agreed by London Councils and the GLA in the joint business rate devolution proposals to Government in September 2016.

12. **Strategic investment** The Mayor of London commits that the GLA's share of any additional net financial benefit from the pilot will be spent on strategic investment projects. Decisions on the allocation of the GLA's share will be made by the Mayor of London.

13. For this purpose, and for the separate joint strategic investment pot, "strategic investment" is defined as projects that will contribute to the sustainable growth of London's economy which lead to an increase in London's overall business rate income. Examples of the kinds of projects the Mayor will seek to support with the GLA's share include supporting the delivery of housing through infrastructure investment and the provision of skills and training to further support housing delivery.

14. The joint strategic investment pot will be spent on projects that meet each of the following requirements:

    - contribute to the sustainable growth of London's economy and an increase in business rates income either directly or as a result of the wider economic benefits anticipated;
    - leverage additional investment funding from other private or public sources; and
    - have broad support across London government in accordance with the proposed governance process (see paragraph 16).

15. It is anticipated that approximately 50% of net additional benefits arising from the pilot pool will be spent on strategic investment projects.

Governance

16. Decisions regarding the Strategic Investment Pot will be taken formally by the Corporation of the City of London - as the lead authority - in consultation with all member authorities, reflecting voting principles designed to protect Mayoral, borough and sub-regional interests, previously endorsed by Leaders and the Mayor in the London Finance Commission (both 2013 and 2017), and set out in London Government's detailed proposition on 100% business rates in September 2016. These are that:

    - both the Mayor and a clear majority of the boroughs would have to agree;
    - a majority would be defined as two-thirds of the 33 billing authorities (the 32 boroughs and the Corporation of the City of London), subject to the caveat

that where all boroughs in a given sub-region disagreed, the decision would not be approved;

- if no decisions on allocation can be reached, the available resources would be rolled forward within the pot for future consideration at the next decision making round.

17. It is envisaged that decisions will be taken bi-annually to coincide with meetings of the Congress of Leaders and the Mayor of London.

Evaluation

18. The Government will undertake a qualitative evaluation the progress of the pilot based on the current research programme for the existing business rate retention pilots, with additional focus on the governance mechanism and decision making process, and the scale of resources dedicated to strategic investment.

Next steps

19. As specified in paragraph 3, the pilot will operate for one year. The Government is committed to giving local government greater control over the revenues they raise. Subject to the evaluation of the pilot, the Government will work with London authorities to explore: the options for grants including, but not limited to, Public Health Grant and the Improved Better Care Fund; the potential for transferring properties on the central list in London to the local list where appropriate; and legislative changes needed to develop a Joint Committee model for future governance of a London pool.

20. The Government will prepare a “designation order” establishing a London pilot pool and reflect this in the Provisional Local Government Finance Settlement in December. If any authority decides to opt out within the following 28 days – that is, by 28 days after the Provisional Local Government Finance Settlement – the pool would not proceed.

21. London Government will draft a pooling agreement between the 34 London authorities by which London Government collectively decides how to operate the pool and distribute the financial benefits. Each authority will be required to take the relevant decisions through its own constitutional decision-making arrangements.

Annex A

<u>Authorities in the London Pilot</u>

Barking & Dagenham
Barnet
Bexley
Brent
Bromley
Camden
City of London
Croydon
Ealing
Enfield
Greenwich
Hackney
Hammersmith & Fulham
Haringey
Harrow
Havering
Hillingdon
Hounslow
Islington
Kensington & Chelsea
Kingston upon Thames
Lambeth
Lewisham
Merton
Newham
Redbridge
Richmond upon Thames
Southwark
Sutton
Tower Hamlets
Waltham Forest
Wandsworth
Westminster
Greater London Authority

Annex B

Grants

The amount of Revenue Support Grant (RSG) to be ‘rolled-in’ to 100% rates retention for 2018/19 for each authority is set out below. This is in addition to the sums rolled in in 2017-18 in respect of the Transport for London investment grant and the Greater London Authority’s RSG under the GLA’s partial pilot.

RSG	Amount (£m) for 2018/19
Barking & Dagenham	23.3
Barnet	14.9
Bexley	8.5
Brent	33.7
Bromley	4.3
Camden	31.9
City of London	7.5
Croydon	23.3
Ealing	26.2
Enfield	25.7
Greenwich	33.3
Hackney	45.0
Hammersmith & Fulham	23.4
Haringey	30.2
Harrow	7.3
Havering	6.8
Hillingdon	13.1
Hounslow	15.7
Islington	32.6
Kensington & Chelsea	16.3
Kingston upon Thames	1.5
Lambeth	42.8
Lewisham	36.9
Merton	10.1
Newham	46.4
Redbridge	16.8
Richmond upon Thames	0.0
Southwark	47.0
Sutton	11.8
Tower Hamlets	43.8
Waltham Forest	26.1
Wandsworth	30.2
Westminster	38.1