Report No. FSD17067	**London Borough of Bromley**	**Agenda Item No.**

PART 1 - PUBLIC

<Please select>

Decision Maker:	**Executive** **Council**		
Date:	**13th September 2017** **25th September 2017**		
Decision Type:	Non-Urgent	Executive	Key
Title:	**LONDON BUSINESS RATE PILOT**		
Contact Officer:	Peter Turner, Director of Finance, Tel: 020 8313 4668 E-mail: peter.turner@bromley.gov.uk		
Chief Officer:	Director of Finance		
Ward:	All		

1. Reason for report

This report provides a proposal for the Council to join the London Business Rates pool pilot which provides financial incentives. For the pilot to proceed it will require the unanimous agreement of all London Boroughs and confirmation from Government that a London wide scheme can go ahead.

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2. RECOMMENDATION(S)

2.1 Executive is requested to recommend to Council that:

2.1.1 Council support the London Business Rates pilot;

2.1.2 Council endorses the Leader agreeing the final arrangements at the Leader's Committee of London Councils to implement a scheme substantially in the form proposed;

2.1.3 The Leader seeks to minimise the collective investment contribution and obtains assurances from Government that any additional funding received will not be offset by future corresponding reductions in Government funding.

Corporate Policy

1. Policy Status: New policy. The Council would be agreeing to a Business Rates pilot which results in pooling the Councils business rates share across London

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: Estimated cost The proposal, if implemented across London would generate potential additional income of between £1.94m and £2.58m based on latest estimates in 2018/19.

2. Ongoing costs: Recurring cost. Council has the option to opt out of the pilot beyond 2018/19. The pilot would determine how much of estimated additional income is recurring until any future business rates reset period.

3. Budget head/performance centre: NNDR Collection Fund

4. Total current budget for this head: £ See para. 3.1.2

5. Source of funding: Business rates growth across London

Staff

1. Number of staff (current and additional): N/A

2. If from existing staff resources, number of staff hours: N/A

Legal

1. Legal Requirement: Non-statutory - Government guidance. The proposals from London Councils for a Business Rates pool in London will require the unanimous agreement of all London boroughs and will require the agreement of terms.

2. Call-in: Call-in is applicable

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): The financial benefits arising from the Business Rates pilot will assist in reducing the Council's ongoing budget gap which impacts on all of the Council's customers (including council tax payers) and users of the service.

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.

2. Summary of Ward Councillors comments: Council wide

3. COMMENTARY

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3.1 Bromley's Business Rate Share

3.1.1 The Members Finance Seminar, held on 10th July 2017, provided an update on the progress of the devolution of business rates and the full devolution, at national level, is expected to be delayed until at least 2020/21.

3.1.2 A breakdown of the business rate share for Bromley is shown below for information

	2017/18 £'000	2018/19 £'000	2019/20 £'000
Revenue Support Grant (Core Funding)	10,855	4,345	0
Business Rate Share Bromley	27,099	27,971	28,966
Business Rate Top Up	8,830	9,114	7,176
Sub Total (Settlement Funding Assessment)	**46,784**	**41,430**	**36,142**
Business Rate Share - GLA	33,422	34,498	35,725
Business Rate Share - Central Government	29,809	30,768	31,863
Total	**110,015**	**106,696**	**103,730**
Total Business Rate Share @ 100%	*90,330*	*93,237*	*96,554*

Business Rate Share based on Settlement Funding Assessment and assumes no change to proportionate share (LBB 30% / GLA 37% / GVT 33%)

3.1.3 As shown above, Bromley will receive a top up of £8.8m in 2017/18 to meet the settlement funding assessment – these monies are effectively a redistribution of national business rates income. If the Council received the government share of business rates, then income would increase by £29.8m. However, the full devolution of business rates was intended to result in a fiscally neutral position for local authorities whilst enabling future growth in business rates to be shared.

3.2 London Business Rates Pilot Prospectus

3.2.1 The Government have offered an opportunity for Business Rates pilots and included financial incentives by pooling with other local authorities. Following the meeting of the Leaders Committee at London Councils on 11th July 2017, London Councils are formally seeking consideration of the attached draft prospectus. Details of the options for consideration are included in the attached document (see Appendix 1).

3.2.2 The proposed pool does not have to be permanent and can be disbanded, if necessary, after a year.

3.2.3 There remains the question of whether the Government would now support such an arrangement but, my understanding is that, it does not need primary legislation to progress. A letter from the Chancellor of the Exchequer to London Councils and the Mayor of London provides some assurance that the pilot can progress (see Appendix 2).

3.2.4 In terms of implementing a pilot scheme, it will require unanimous agreement of all London boroughs to proceed. To progress with the scheme, the Executive need to consider whether to agree to a London wide pool and make recommendations to full Council. Council would consider whether to join the pool and, if so, would be requested to give delegated authority to the Leader to progress with final arrangements. This will enable the Leader to have authority to indicate his support or otherwise at the Leaders and Mayor meeting on 10th October 2017.

3.2.5 The attached prospectus identifies potential additional income for London of £229m by operating a pool, using forecast information provided from individual local authorities on their expected business rates. There is a commitment that no local authority would be worse off compared with retaining the existing share scheme.

3.2.6 The suggested four objectives for the distribution of additional income highlighted in Appendix 1 would be as follows:

a. **Incentivising growth** (by allowing those boroughs where growth occurs to keep some proportion of the additional resources retained as a result of the pool);
b. **Recognising the contribution of all boroughs** (through a per capita allocation);
c. **Recognising need** (through the needs assessment formula);
d. **Facilitating collective investment** (through a collective investment pot designed to promote economic growth within London and lever additional investment funding from other sources).

3.2.7 The potential additional income, on the basis of a London wide gain of £229m, would be as follows for Bromley:

Potential Additional Business Rates Share to Bromley with Pilot Pool	**£m**
Option A 25%/25%/25%/25% (a/b/c/d per 3.2.6 above)	2.15
Option B 30%/30%/30%/10% (a/b/c/d per 3.2.6 above)	2.58
Option C 40%/20%/20%/20% (a/b/c/d per 3.2.6 above)	1.94
Option D 20%/30%/30%/20% (a/b/c/d per 3.2.6 above)	2.47

3.2.8 The per capita measure provides the greatest financial benefit to the Council compared with "recognising need" and any weighting relating to facilitating collective investment does not provide direct financial benefit. It is recognised that the local authorities with the highest level of business rates growth/gains will want to retain a proportion of the direct financial benefits of such gains. In considering the collective investment contribution, to what extent will such investment provide benefit to Bromley? London Councils have indicated that the collective investment approach is likely to be viewed favourably by Government, as it helps address the original policy objectives behind business rate retention and would require closer working and governance arrangements to be developed between the Mayor and the 33 borough Leaders for the purposes of establishing and operating the pool, and in delivering the desired outcomes.

3.2.9 If there was no collective investment requirement, the additional income to Bromley would equate to (on a pro rata basis) £2.89m (adjusted Option A), £2.89m (adjusted Option B), £2.4m (adjusted Option C) and £3.1m (adjusted Option D). This potential income would be in addition to any income received under the existing business rates share scheme, using projections provided by London boroughs. It is important to note that the proposals include financial incentives which can only be realised by pooling business rates with other local authorities.

3.2.10 It is important to recognise that without progressing with this pilot, London will forego a potential income of £229m for the first year and, based on the London Councils illustrative options in the attached report, Bromley will forego estimated additional income of between £1.94m and £2.58m.

3.2.11 Although there will be more detail to follow around governance and seeking collective agreement, the financial argument is compelling. It is also important to recognise that failure to take up the offer could be perceived as "underfunded" local authorities foregoing an opportunity for additional funding.

3.2.12 Members are requested to indicate their level of support for the scheme. There is no information currently available on the distribution methods being favoured by other London boroughs which are expected to be determined at the Leaders and Mayor meeting on 10th October 2017 (see 3.2.4). The option of retaining resources in a strategic investment pot is likely to be viewed favourably by Government. It helps address the original policy objectives behind business rate retention and would require closer working and governance arrangements to be developed between the Mayor and the 33 borough Leaders for the purposes of establishing and operating the pool as well as delivering the desired outcomes.

4. POLICY IMPLICATIONS

4.1 The Council launched the updated "Building a Better Bromley 2016-2018". One of the key priorities includes ensuring financial independence and sustainability. The opportunity for a share of additional income, by joining the pool, will assist in reducing the Council's budget gap.

5. FINANCIAL IMPLICATIONS

5.1 Latest estimates from London Councils indicate that the Council could benefit by between £1.94m and £2.58m in 2018/19, depending on the final option agreed. This potential income would be in addition to any income received under the existing business rates share scheme, using projections provided by London boroughs. It is important to note that the proposals include financial incentives which can only be realised by pooling business rates with every other London borough.

5.2 Any final scheme would require the approval of Government and the scheme would only progress on the basis that no individual London borough would be worse off compared with retaining the existing share scheme.

5.3 As indicated in the report, there is uncertainty on how the collective investment element of the business rates share would be used and it is therefore suggested that this element be kept to a minimum in any final proposed scheme, whilst recognising that collective investment would make a pilot more attractive to central government. Any estimate of financial gains has to be treated with some caution at this stage and it will be dependent on business rates growth in 2018/19.

5.4 It is important that any financial gains are not offset by any future corresponding reduction in Government funding and assurances will be required for any final scheme.

6. LEGAL IMPLICATIONS

6.1 The proposals from London Councils for a business rates pool in London will require the unanimous agreement from each London borough and will require the agreement of terms upon which they will participate jointly with other members, including appointing a lead authority as an accountable body for the pool and to decide how the pool should operate. The Council is being requested to delegate the exercise of their relevant functions to a joint committee, such as Leaders' Committee which would require the Leaders' Committee governing agreement to be formally varied which requires the agreement of all 33 authorities for the variation to be effective.

6.2 The majority of decisions relating to business rates are Executive functions save where they are integral to the annual budget or where they could have a significant impact (whether positive or negative) on the Council`s finances. In the latter case then under paragraph 3 of the Budget and Policy Framework Rules in the Council's Constitution when the decision is taken by Council on the recommendation of the Executive. The Councils Directors of Corporate Services and Finance respectively as statutory Monitoring and 151 Officers respectively are of the opinion that the impact of the scheme is at a threshold where Council approval is required.

6.3 If Council approval is given then future decisions will be a matter for the Leader/Executive

Background Documents:	
	London Councils - report to Leaders Committee on 11th July 2017, Agenda Item 4, "London Business Rates Pilot Pool 2018-19" Impact on Vulnerable Adults with Children N/A Personnel Implications N/A Procurement Implications N/A

Borough Leaders

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Date: 14 July 2017

Cc: London Borough Chief Executives; John O'Brien; Dick Sorabji; Guy Ware
Enc: Draft Pooling Prospectus

Dear Leaders,

London Business Rates Pool 2018-19

Following the item at Leaders' Committee on 11th July 2017 regarding the proposals for an expanded London business rates retention pilot via a pan-London pool, we are writing formally to seek your consideration of the attached draft prospectus, which sets out how it is envisaged that a pilot pool could operate in 2018-19, should the Government renew its commitment to this approach.

As reported to Leaders' Committee, the Government's policy intentions with regard to 100% retention of business rates remain unclear following the General Election. However, the Leaders' Committee report also set out an approach by which London Government could remain in a position to negotiate a 2018-19 pilot pool.

The benefits this would deliver include early retention of 100% of growth across London (rather than 67% currently retained); savings from the scrapping of any levy on growth; and, potentially, the transfer of some Central List properties to the London pool increasing the capacity to benefit from growth, and possibly trialling greater flexibility over some mandatory reliefs. In addition, there could be broader strategic benefits to developing London's governance arrangements, broadening our ability to influence CLG and HM Treasury.

The report identified two founding principles that we envisage would be the basis for agreement whereby:

1. no authority participating in the pool could be worse off than they would otherwise be under the 50% scheme; and
2. all members would receive some share of any net financial benefits arising from the pilot pool.

The report also set out four objectives to inform the distribution of any aggregate financial benefit that may accrue from being in a pool:

- **incentivising growth** (by allowing those boroughs where growth occurs to keep some proportion of the additional resources retained as a result of the pool)
- **recognising the contribution of all boroughs** (through a per capita allocation)
- **recognising need** (through the needs assessment formula); and

- **facilitating collective investment** (through an investment pot designed to promote economic growth and lever additional investment funding from other sources).

The enclosed draft prospectus sets out more detail about the founding principles of a potential pool agreement; options for allocating the financial benefits; and the proposed governance and administrative arrangements for operating a potential pool.

Leaders' Committee agreed to consider the draft prospectus as the basis for consultation within your respective authorities over the summer, in order that you are in a position to be able to indicate in-principle support for a pan-London pilot pool, or not, and to indicate a preference for the distribution method of any additional resources, by the Leaders' Committee and Congress of Leaders and Mayor meeting on 10th October 2017.

Should the Government renew its commitment in the Autumn Budget (likely to be November), a final detailed pooling agreement would then be negotiated with CLG, with the likely deadline being the time the Local Government Finance Report is published in February 2018, in order that the detailed governance and legal framework is in place in a timely manner prior to implementation in April 2018.

We appreciate that there is a degree of uncertainty regarding the broader policy intention of the new Government in this area. The Government did, however, commit to exploring this through the London Devolution MOU at the Spring Budget in March, and it is only right that London Government consider these proposals fully, in order to be in the best possible position to make the most of this opportunity, were the Government to renew this commitment in the Autumn.

Yours sincerely,

Cllr Claire Kober
Chair, London Councils
Labour Group Leader

Cllr Teresa O`Neill
Vice Chair, London Councils
Conservative Group Leader

London Business Rates Pilot Pool 2018-19 – Draft Prospectus

Introduction

1. This draft prospectus sets out how it is envisaged that the London Business Rates pilot pool would work in practice, were the 33 Leaders/Mayors and the Mayor of London to agree to form a pool in 2018-19.

2. The Government established pilots in 6 areas of the country in April 2017, including London where the GLA's level of retained business rates increased from 20% to 37%, replacing TfL transport grant and Revenue Support Grant. An expanded London pilot in 2018-19, which would require all 33 London Boroughs and the Mayor of London to agree to pool, would seek at least to replicate the common features of the deals in the other 5 pilot areas: Greater Manchester; Liverpool City Region; West Midlands, West of England and Cornwall.

Founding principles

3. It is proposed that there are two founding principles that would require agreement at the outset by all pooling members.

1) Nobody worse off

4. The first founding principle of the agreement would be that ***no authority participating in the pool can be worse off than they would otherwise be under the 50% scheme***.

5. DCLG civil servants have indicated an expectation that a London pilot pool would be underpinned by the same safety net arrangements and "no detriment" guarantee currently offered to existing pilots in 2017-18. This ensures that the pool, as a whole, cannot be worse off than the participating authorities would have been collectively if they had not entered the pool.

6. Existing Enterprise Zones and "designated areas", along with other special arrangements, such as the statutory provision to reflect the unique circumstances of the City of London, would be taken into account in calculating the level of resources below which the guarantee would operate. For boroughs in an existing pool[1], DCLG have also indicated that the basis of comparison would include the income due from that pool.

7. The impact of the guarantee would be to ensure that the minimum level of resources available for London, as a whole, could not be lower than it would otherwise be. In order to then ensure that no *individual authority* is worse off, the first call on any additional resources generated by levy savings and additional retained rates income,

[1] Of the 33 London authorities in 2017-18 this includes Barking & Dagenham, Havering and Croydon

would be used to ensure each borough and the GLA receives at least the same amount as it would have without entering the pool.

8. The level of Revenue Support Grant (RSG) for each borough has been set by the 4-year settlement (to 2019-20). For each borough this would be replaced by retaining additional rates (just as the GLA has done this year). In addition Public Health Grant (PHG) and the Improved Better Care Fund (iBCF) would also be replaced by rates, leading to an adjustment of expected baselines and top-ups or tariffs (as appropriate). While the composition of each borough's "core funding" (retained rates plus RSG, Public Health Grant and iBCF) will therefore change, the overall quantum will not. This revised position is then the baseline against which the "no detriment" guarantee is calculated. Each borough – whether its business rate income grows or declines during the operation of the pilot pool – will receive, as a minimum, the same amount of cash it would have received under the existing 50% system.

2) All members share some of the benefit

9. Growing London's economy is a collective endeavour in which all boroughs make some contribution to the success of the whole. In recognition of the complex interconnectedness of London's economy, it is proposed that the second proposed founding principle would be that ***all members would receive some share of any net benefits arising from the pilot pool.***

10. The net financial benefit of pooling consists of retaining 100% of growth (rather than 67% across London under the current scheme), and in not paying a levy on that growth (which tariff authorities and tariff pools currently pay). The principle would mean that *any aggregate growth* in the pool overall – because of the increased retention level – would generate additional resources to share, with each pooling member benefit to some extent.

11. In addition, it could be possible to transfer of some Central List properties located in London (for example, the London Underground network) to the London pool, thereby increasing the capacity of the pool to benefit from growth on those properties. This would be explored with government as part of the pool negotiation.

Sharing the benefits of pooling

Objectives

12. Assuming the pool generates some level of additional financial benefit, the question of how to share this will be central to any final pooling agreement. The latest estimated net benefit to participating in the pool is expected to be in the region of £230 million in 2018-19, based on London Councils' modelling using boroughs' own forecasts.

13. Discussions with the Executive and informally with Group Leaders, have identified four objectives that could inform the distribution of such gains:

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

14. A “pure” way to ***incentivise growth*** would be for the London local authorities where growth occurs to retain the full benefit, including any levy savings, after ensuring all authorities had been brought up to the level of funding they would otherwise have received under the current 50% scheme. This option would see the greatest reward go to those whose business rates grow, but would produce no net benefit for the minority of boroughs where no (or negative) growth is expected.

15. A simple ***per capita distribution*** using the latest population estimates from the ONS[2], would recognise the requirement to work collectively to grow London’s economy and ensure a share of the benefit for all authorities.

16. While the role of incentivising growth is important, some recognition of ***increasing need*** and demand for services has also been identified as a priority. Economic and business growth also drives, and is reinforced by, increasing demand for services across the capital. One measure that could be used to distribute any net benefit could therefore be to reflect the Government’s current assessment of need: Settlement Funding Assessment (although this will clearly be subject to change in future following any “Fair Funding” review).

17. Recognising the requirement for ***collective investment*** to promote further economic growth could be facilitated by retaining resources in a strategic investment pot. Such an approach is also likely to be viewed favourably by Government, as it helps address the original policy objectives behind business rate retention and would require closer working and governance arrangements to be developed between the Mayor and the 33 borough Leaders for the purposes of establishing and operating the pool, and in delivering the desired outcomes.

18. Individually, these principles would drive very different distributions of the direct benefits received by boroughs. The pure “incentives” approach would obviously favour those with the highest growth rates. Distribution according to SFA and population creates a more even spread of resources, but arguably provides less incentive to promote growth, and may therefore not optimise the opportunity for London in the longer term. It is proposed that a distribution mechanism should be a blend of all four of these objectives.

[2] The 2014-based Sub-National Population Projections for 2018

Options for weighting

19. In deciding the balance between the four objectives, and therefore the relevant weighting between the measures listed above, there are countless possible variants. However, following initial discussions with Group Leaders, four potential options are illustrated below:

    A. An even split percentage between the four pots (25:25:25:25).

    B. Reducing the strategic investment pot to 10% of the total, while the "reward", "needs" and "population" pots are equally weighted (30:30:30:10).

    C. Greater "incentive weighting" with equal weighting for the other three pots (40:20:20:20)

    D. Greater "needs" and "population" weightings (each 30%) with equal remaining weightings of 20% for "incentives" and "investment" pots (20:30:30:20)

20. The potential net benefit for each borough from this model – based on the latest information available on estimated income for 2018-19 – is set out in the charts at Appendix A and summarised in the table below. Under the 100% pilot pool it is estimated that there might be £470m of retained growth: £229m more than under the 50% scheme (after ensuring no borough is worse off as a result of participating).

Table 1 – Distribution options for estimated £229m net benefit of pooling in 2018-19

Option	A	B	C	D
GLA share (£m)	£62	£75	£66	£66
Aggregate borough share (£m)	£110	£131	£117	£117
Investment pot (£m)	£57	£23	£46	£46
TOTAL (£m)	**£229**	**£229**	**£229**	**£229**
Minimum borough gain (£m)	£1.2	£1.5	£1.1	£1.4
Maximum borough gain (£m)	£12.4	£14.9	£19.6	£10.1

Source: London Councils' modelling using London Boroughs' data supplied by borough finance directors or where not available by applying the latest 2017-18 forecasts to 2018-19.

21. Leaders are invited to consider the options in the context of balancing the objectives of incentives and need, and be in a position to indicate a preference for the weighting by the October Leaders' Committee and Congress meeting.

Investment pot principles

22. If an "investment pot" is created, the final amount of funding available will not be known until after the final audited outturn figures are confirmed for 2018-19 – likely to be in September 2019. A final methodology for allocating resources to specific projects is therefore not necessarily required at the outset of the pooling agreement. However, it will be important to consider the criteria and process for developing and approving proposals, in order to maintain a balance between simplicity of operation, strategic impact and broad appeal.

23. More immediately, it is proposed that the founding pool agreement includes *guiding principles* for the use of such an investment pot, for approval by all members of the pool. As such, it is proposed that investment proposals approved would:

- promote increased economic growth, and increase London's overall business rate income; and
- leverage additional investment funding from other sources.

24. It is proposed that these principles would be agreed as part of the founding agreement for the pool – and would therefore require unanimous support. It is then assumed that decisions on the allocation of the pot would be taken by the Congress of Leaders and the Mayor annually in accordance these principles.

Governance

25. Leaders and the Mayor have previously endorsed the view that commitment to the collective management of devolved business rates would require unanimous support, and have identified Congress as the appropriate body formally to recognize those commitments.

26. However, the Congress of Leaders has no power to bind authorities. Local decisions would need to be taken by each authority to agree the terms of the legal agreement which would underpin the arrangements.

27. Participation in a pool in 2018-19 would not bind boroughs or the Mayor indefinitely. As with existing pool arrangements, the founding agreement would need to include notice provisions for authorities to withdraw in subsequent years.

28. Subsequent decisions (e.g. the application of a strategic investment pot) could be subject to the voting principles designed to protect group, sub-regional or Mayoral interests, such as those 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. This will require the development of formal terms of reference for Congress to underpin collective decision-making in accordance with the decision principles previously agreed. As mentioned in paragraph 22, any such decisions would not be required until the level of available resources is confirmed after all accounts have been audited (i.e. September 2019).

29. Establishing a business rates pool in London will require each authority participating in the pool to agree to do so; and to also agree the terms upon which they will participate jointly with other members, including to appoint a lead authority as accountable body for the pool and to decide how the pool should operate. While the legal framework for the operation of the pool is yet to be determined in consultation with the authorities and the Government, should the London local authorities each resolve to delegate the exercise of their relevant functions to a joint committee, such

as Leaders’ Committee, this would require the Leaders’ Committee governing agreement to be formally varied which requires the agreement of all 33 authorities for the variation to be effective.

Accounting and reporting arrangements

Lead authority

30. As in other existing pools, a lead authority would be required to act as the accountable body to government and would be responsible for administration of the pooled fund. The same authority – or another – could also hold any properties transferred to London from the Central List, as there is currently no legislative provision for a “regional list”. The role of the lead authority/authorities could receive political oversight from the Leaders and Mayor of London; London Councils and the GLA could provide technical support.

31. The lead authority responsibilities from existing pool agreements typically include:
    - Receiving payments from pool members and making payments to central government on behalf of pool members on time.
    - Maintaining a cash account on behalf of the pool and paying interest on any credit balances.
    - Liaising with and completing all formal pool returns to central government.
    - Administering the schedule of payments between pool members in respect of the financial transactions that form part of the pool’s resources.
    - Providing the information required by pool members in preparing their annual statement of accounts in relation to the activities and resources of the pool.
    - Leading on reporting to understand the pool’s position during and at the end of the financial year.

32. The lead authority would, therefore, be responsible for the net tariff payment to central government as well as the internal tariff and top up payments to the pool authorities. The partner billing authorities would make payments to the lead authority based on an agreed schedule, which could be made on the same schedule of payment dates agreed for tariff and top up payments.

33. It is likely that the resources required to perform this function would be 1 FTE post, which would likely be a senior accountant with considerable experience and understanding of collection fund accounting and the business rates retention scheme.

Reporting

34. In order to perform the functions of the lead authority, each member authority of the pool would need to provide timely information as well as making payments on time to the agreed schedule.

35. Forecast (NNDR1) and outturn (NNDR3) figures will still need to be produced, as per the existing NDR Regulations 2013, in order to enable budget processes to be complete, payments determined that need to be made to the lead authority and to government (by the lead authority) and to the GLA during the course of the year as well as transfers to General Funds.

36. The pool would use NNDR1 returns to establish the schedule of payments to be made to the lead authority and for the calculation of any notional levy savings to be made. However, it would not be until the outturn position is known (the NNDR3 form) that actual reconciliation would be made and the final growth/decline for the pool as a whole, and individual pool members, would be established. This will be in September 2019 after accounts have been audited for the financial year 2018-19.

37. The NDR income figures in the forms determine the growth/decline for that year and it is this figure that would determine the amount to be shared between pool members or between local authorities and central government in the current system.

The treatment of appeals

38. Variances against forecast in the non-domestic rating income are reflected in the forecast surplus or deficit of the collection fund at the start of the following year (information which is collected as part of NNDR1). Appeals provisions impact each year on the calculation of the NNDR income figure: a higher provision in a year, everything else being equal, reduces the NNDR income figure determining growth/decline for that year.

39. A separate pooled collection fund would be required to be established that would sit with the lead authority. A key issue will be the treatment of Collection Fund surpluses and appeals provisions within the pool. The key principle pooling authorities would have to agree is that the benefits (or costs) of actions undertaken by the boroughs prior to entering the pool should remain with the borough so that no borough can be worse off than they would have been under the 50% scheme. So – for example – if a provision established in 2013-14 proves not to be necessary and is released during 2018-19, the borough should receive at least as much as it would have under the existing 50% scheme, plus its share of any additional retained revenues.

40. The pool's collection fund account would have to continue beyond the life of the pool until all appeals relating to the pool period were resolved. Provisions released after the operation of the pilot would be distributed on the basis of the pool's founding agreement – i.e. the borough where the provisions originated would receive at least as much as it would under the 50% retention system, with any additional resources being shared according to the pool's agreed distribution mechanism. There would therefore be no "gaming" benefits to individual boroughs of setting higher (or lower) provisions. The lead authority would be responsible for administering this.

41. Further work will be undertaken to set out how the accounting and reporting requirements would work in practice, which is likely to mean either additional lines on

the existing NNDR form or an additional “London pool” form administered by the lead authority. This will be confirmed as part of the final pooling agreement.

Timetable

42. A 2018-19 pilot would require agreement with Government at or around the Autumn Budget – likely to be in November 2017. This, in turn, would necessitate initial agreement in principle at the meetings of the Leaders’ Committee and Congress of Leaders on 10th October 2017 on the basis that each authority had been consulted and had either previously authorised that decision to proceed with participation in the pilot, or that their authority’s Leader had been given delegated authority to do so.

43. This draft prospectus forms the basis for internal consideration and discussion within each of the 34 prospective pooling authorities over the summer, in order for each Leader and the Mayor to be in a position to consider each authority’s in principle position about the pool and to indicate this at the Congress of Leaders on 10th October, in the event that the Government wishes to pursue a pilot pool in London.

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

Appendix A – Modelled Options

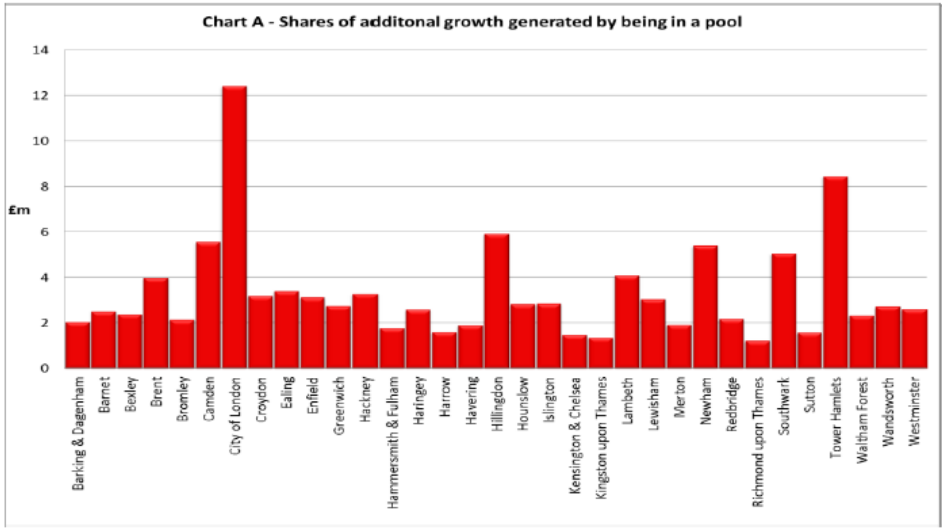
1. This appendix shows the impact of varying weightings on the overall distribution of any net additional benefit from being in the pool. It assumes the latest growth estimates for 2018-19 across London boroughs (combining where available figures from a recent survey of treasurers and, where not available, the latest published estimates of growth in 2017-18 applied as if in 2018-19). The overall net benefit being distributed is £229m.

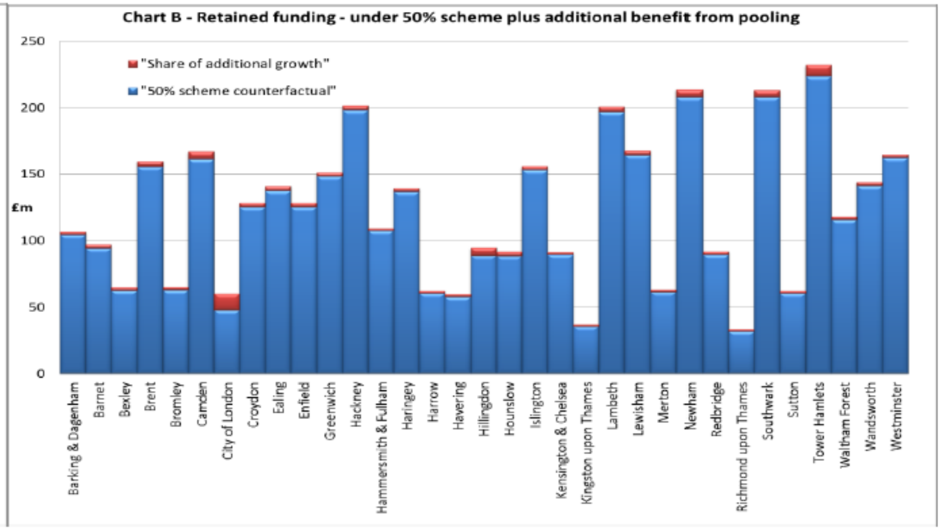
2. The charts below show the distribution of growth under four different scenarios for the relative weightings between the four potential distribution "pots" described above - i.e. incentives; needs (SFA); population (ONS 2018 projection) and investment pots.

    - Option A: weights each pot at 25%
    - Option B: Incentives (30%), Needs/Population (30% each) and Investment (10%)
    - Option C: Incentives (40%), Needs/Population (20% each) and Investment (20%)
    - Option D: Incentives (20%), Needs/Population (30% each) and Investment (20%)

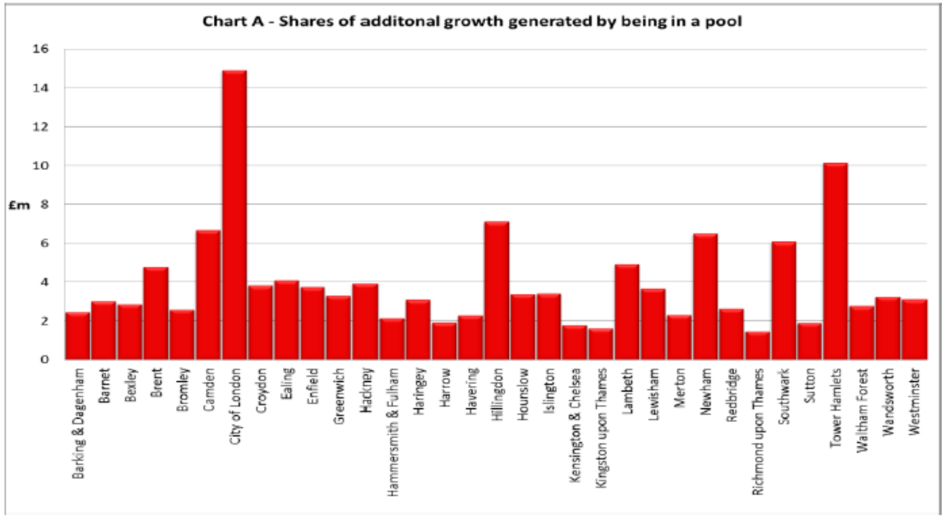
3. For each option we have illustrated both the cash gain for each borough (red, left-hand bar charts) and the marginal gain over the retained funding under the existing 50% position (red and blue, right-hand bar charts).

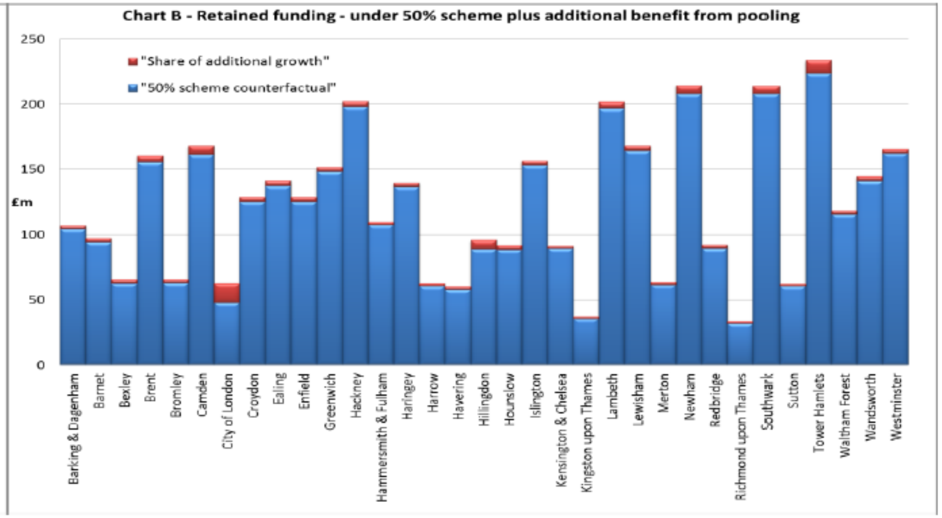
Option A: Equal split between pots – 25%/25%/25%/25%



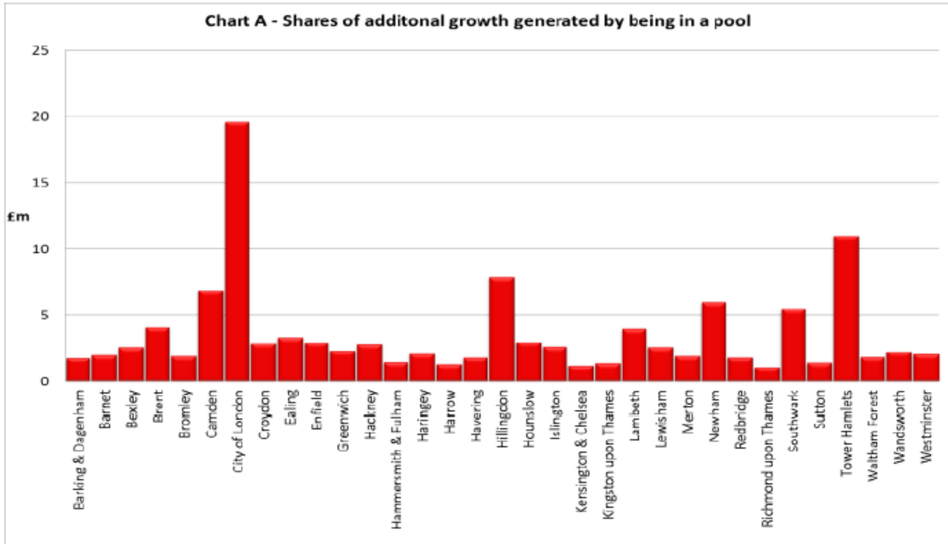


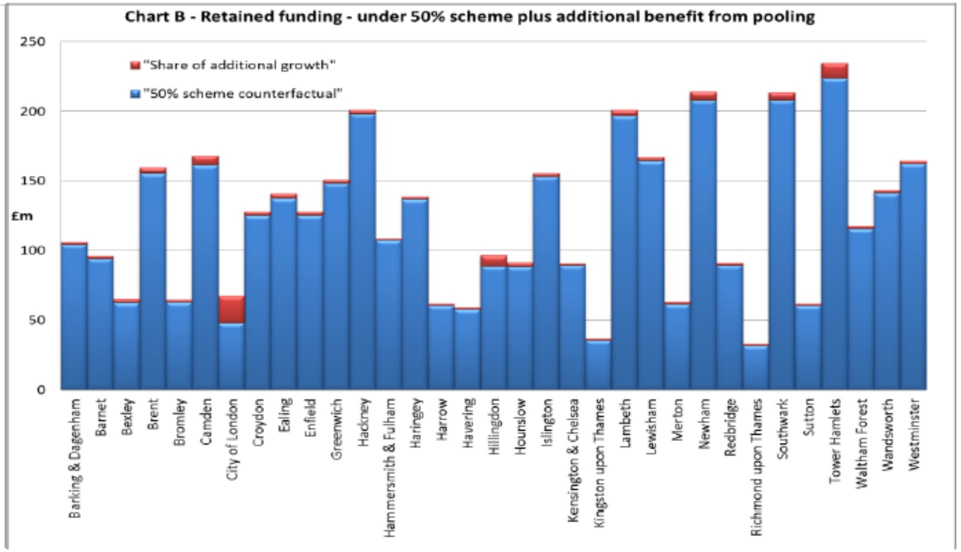
Option B: Reduced “investment pot”: 30%/30%/30%/10%



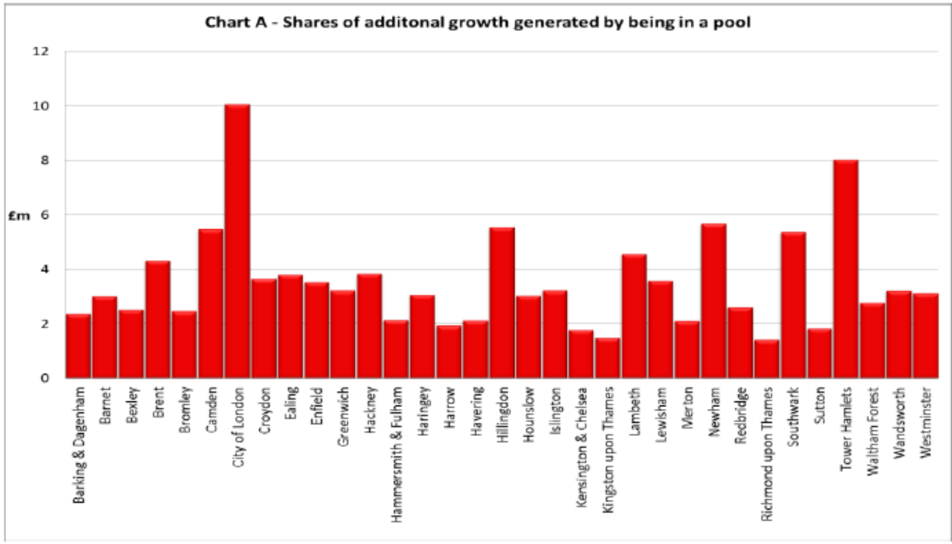


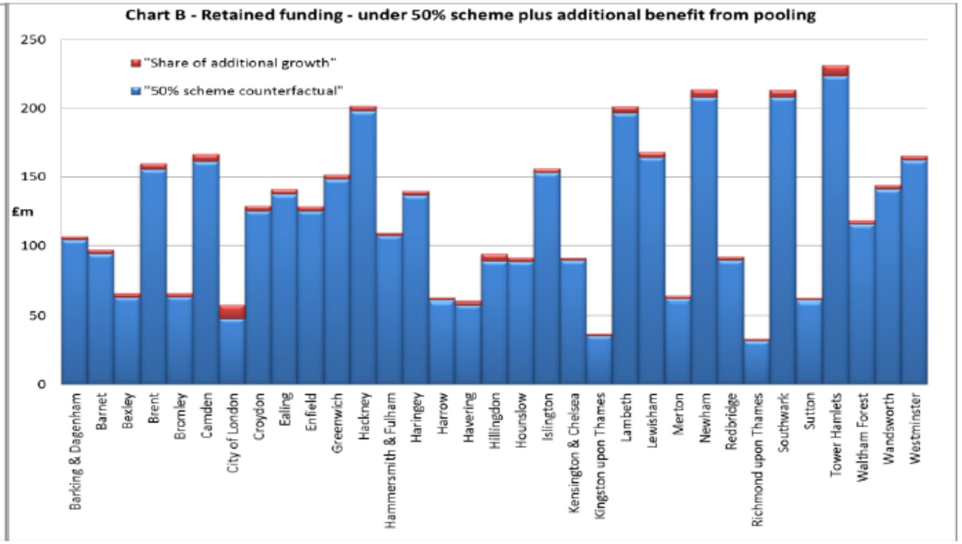
Option C: Greater “incentive” weighting: 40%/20%/20%/20%





Option D: Greater “Needs/population” weighting: 20%/30%/30%/20%





HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

14 August 2017

Sadiq Khan
Mayor of London
City Hall, The Queen's Walk
More London
London
SE1 2AA

Cllr Claire Kober
Chair, London Councils
59½ Southwark Street
London
SE1 0AL

Dear Sadiq & Claire

Thank you for your letter and ongoing commitment to working together to support the continued interests of London and the rest of the UK.

The government remains committed to implementing the Memorandum of Understanding (MoU) on further devolution to London that we agreed at Budget. I understand that discussions are ongoing across government and with London partners to make progress on the areas covered by the MoU. I expect these discussions to continue over the coming months and will continue to monitor their progress to ensure that we are delivering on our shared commitments.

The government remains committed to continuing to give local government greater control over the money it raises, and intends to maintain an open dialogue with local government about the best way to achieve this. Government officials, the GLA and London Councils are exploring the possibility of piloting 100% business rates retention in London from as early as April 2018. Any such deal would form part of a wider package of powers and flexibilities over the administration of business rates in London, in line with the commitment in the MoU.

I welcome the work being done by the Mayor's Office and the Department for Transport on Crossrail 2. However, we must ensure that any investment is both affordable and fair to the national taxpayer.

I also welcome your intention to work with the government to take urgent action to tackle air pollution. Improving air quality is a priority for this government. As you will have seen, we have now published our *UK Plan for Tackling Roadside Nitrogen Dioxide Concentrations*, which sets out plans to meet our environmental responsibilities and ensure our towns and cities are clean, healthy places to live. We are committed to working closely with London and other cities as we implement the Plan and I understand that our officials have been in contact regarding the proposals you mention.

Last year I announced that the government will guarantee all European Structural and Investment Fund (ESIF) projects signed before the UK leaves the EU. This includes those projects that will continue after the UK has left the EU. Funding for projects will be guaranteed if the relevant government department believes that they provide good value for money and are in line with domestic priorities.

The government's manifesto committed to creating a UK Shared Prosperity Fund using the structural fund money that comes back to the UK. The government will consult widely on the design of the fund. This will include London partners and we will set out further details on this in due course.

I am aware that DCLG are working closely with Westminster Council and the West End Partnership to consider the case for the government to provide support for investment in London's West End. Officials are analysing the detail of the proposal. The government will take a decision on its support for the scheme once this process is completed.

I look forward to continuing to work with you to support the continued growth and prosperity of London and the rest of the UK. I am copying this letter to the Rt Hon Greg Hands MP, Minister for London, and Rt Hon Gavin Barwell, the Prime Minister's Chief of Staff.

PHILIP HAMMOND