London Business Rates 100% Retention Pilot 2018

Some Questions and Answers

London Councils and the GLA have been working with the government to explore a potential pilot for 100% business rate retention from April 2018. Such a pilot could be a step towards London Government's joint ambitions for greater fiscal devolution. It would start from the principle – underpinned by a "no detriment" guarantee proposed by the government – that every borough (and the GLA) would receive at least as much funding as it would receive under the current system, and could gain a share of significant additional financial benefits, even from a single year of operation. Collective participation could also help influence government policy and build the credibility of London's government to manage further devolved powers. However, commitment to a pilot would not necessarily commit boroughs or the Mayor to longer-term pooling when the full national system of 100% retention is introduced.

This document provides answers to common questions in order to help anybody with an interest to understand how a pilot would work, and the benefits it might bring.

Questions:

1 How do business rates work now?

Business rates are a tax on commercial property. Each property's "Rateable Value" is periodically assessed by the national Valuation Office Agency. The government sets a "multiplier" – a rate in the pound that, multiplied by the Rateable Value, gives the rates bill for each property. The government also sets a range of mandatory rate reliefs, such as those for small businesses, charities and empty properties.

Local authorities raise bills and collect the rates. Until April 2013, these revenues were all transferred to central government for redistribution back to local government as grants. From 2013/14 onwards, local government has collectively retained 50% of the rates (in London this was split 30:20 between the boroughs and the Greater London Authority (GLA); the other 50% funds government grants to local government, such as Revenue Support Grant (RSG).

However, INDIVIDUAL councils do NOT keep 50% of all the rates they collect. Instead, the government compares the rate income it expects each council to collect (the "business rates baseline") with the level of funding it assesses each council needs (the "funding baseline"). Where a council's rates baseline exceeds its funding needs, it pays a ***"tariff"*** into a national pool; where a council's rates are less than its assessed needs, it receives a ***"top-up"***.

When a council's business rate tax base grows by more than inflation, it retains 50% of that growth to spend locally; if it is a tariff council, it also pays a ***"levy"*** on that growth into the national pot.

If a council's tax base falls, it bears the loss. However, the ***"safety net"*** – funded by the levy nationally – guarantees that each council will receive at least 92.5% of its baseline funding.

Rates for some properties – mostly utilities and transport infrastructure – are paid over to central government and remain outside the retention system. These properties are collectively known as the ***"Central List"***.

When the 50% retention system was set up in 2013, it was envisaged that the baselines would be ***"reset"*** in 2020. This would have redistributed the additional resources being retained by those councils with growing tax bases in line with a new assessment of need. Since then, the government announced that it intended to reform the system so that local government – collectively – retains 100% of business rates. The additional resources retained would replace many of the grants councils currently receive, and would fund additional devolved service responsibilities currently paid for by other parts of government, so that the overall result is "fiscally neutral" – i.e. there would be no increase in either taxation or spending at the national level.

2 What is a business rates pool?

In a pool, a group of authorities are treated as a single entity for the purposes of calculating tariffs, top-ups, levies and safety net. There are currently 29 pools covering 207 authorities (including 2 pools which cover 3 London boroughs and their neighbouring counties/districts). Pools are currently voluntary and self-selecting, but a given authority can only belong to one pool. The main reason to pool currently is to make a collective saving on the levy that would otherwise be paid by tariff authorities that grow, by balancing aggregate top-ups and tariffs within the pool. Each pool has its own governance arrangements, and each has negotiated its own mechanism for redistributing the levy savings and for compensating authorities that would otherwise be in the safety net.

3 What would be different in a London 100% pilot pool?

Under the proposals for 100% retention, local government would swap mainstream grants – e.g. Revenue Support Grant, Public Health Grant and Improved Better Care Fund – for a greater share of business rates, just as the GLA has already done for some of its grants (see Q4). In a London pilot, this swap would happen from April 2018. It is also possible that rates could fund additional devolved services in London.

Business rate and funding baselines would then be aggregated for the whole of London. This provides the starting point against which any growth in business rate income would be measured.

The government has indicated that a London pilot pool – despite having an aggregate tariff (Q5) – would pay no levy, and would keep 100% of any ***growth*** in business rates. This provides a potentially significant financial benefit. If the projected rate of business rate growth for the current year were repeated in 2018/19, the overall direct benefit for London would be more than £200 million (see Q8).

4 Isn't there a London pilot already?

Yes. From April 2017, the GLA swapped RSG and capital grants for Transport for London (TfL) for a higher share of retained rates (37% rather than 20%). This did not affect the funding for boroughs. The current split is therefore:

- Boroughs – 30%
- GLA – 37%
- Government – 33%

5 Would a London pilot pool keep 100% of the business rates it collects?

No. London would still pay an aggregate tariff. The 2017 revaluation led to a significant increase in London's Rateable Values compared to the rest of the country. If London swapped RSG, Public Health Grant and Improved Better Care Fund grants for retained rates – and without the transfer of significant additional service responsibilities – we anticipate that about £2 billion p.a. would flow out of London to fund services in the rest of the country based on existing funding baselines.

6 What is the relationship between the pilot and the needs review?

The government previously announced that the national implementation of 100% retention will be underpinned by a "Fair Funding" review of needs, which will recalculate councils' "funding baselines". This is a detailed and complex task. Before the General Election, the government intended to consult on detailed proposals during Summer 2018, for implementation in April 2019. Even if the work goes ahead, it is now unlikely that it could be completed before April 2020.

London Councils and the GLA have been fully involved in the joint CLG/LGA working groups supporting the business rates retention and fair funding policy developments, and will continue to seek to ensure that London's interests are reflected in the proposals that emerge.

In the meantime, any pilot pool would be based on existing business rates and funding baselines. As a result, the vast bulk of borough/GLA funding would be unaffected. No authority could be worse off than it would otherwise be next year (or in future years, if the pilot continues) simply as a result of participating in the pool (see Q9) and could receive additional funding; the distribution of any additional resources arising from the pilot would be a matter for London Government to decide (see Q17).

Participation in a pilot pool would not affect the way that new funding baselines arising from a future needs assessment would be applied to London Boroughs.

7 How would a pilot match London's previous "asks" for business rate devolution?

In response to the government's initial consultation on 100% retention, London Boroughs and the Mayor of London submitted a joint response setting out fourteen "asks" of government that constituted an ambitious proposal for full devolution of the setting, collection and distribution of business rates in London. This proposal was made in the context of the broader arguments for fiscal devolution in the capital made by the London Finance Commission in 2013, and subsequently re-affirmed in ['Devolution - a capital idea']in January 2017.

The government responded (most recently in the Spring Budget 2017) by committing to explore options for devolving greater powers and flexibilities to London – for which it regards pooling as a necessary precondition. Nonetheless, the potential gains from a pilot pool, while substantial, do not constitute real devolution of business rates.

8 What are the benefits of a 100% pilot pool?

Primarily: cash. A pilot pool would not pay a levy and would retain 100% of growth from April 2018. (If business rates fall, the potential impact is limited by the safety net and "no detriment" guarantees proposed – see Q9.) If the projected rate of business rate growth for the current year were repeated in 2018/19, the overall direct benefit for London would be more than £200 million. We are seeking boroughs' latest estimates of future rate income to refine that figure.

Negotiating a pilot may also bring additional benefits and flexibilities. For example, we are currently exploring the potential transfer of some Central List properties to a "regional" list (to be managed by a lead authority on behalf of the London pool) and working with CLG to define the parameters for agreeing "Local Growth Zones" – areas where business rate growth would be retained for an extended period in order to fund investment that drives greater economic development.

More strategically, successfully operating a collective pilot would demonstrate London's capacity to manage greater responsibilities, and could be the key to unlocking broader devolution opportunities.

9 What are the risks of the pilot?

Business rates can go down as well as up. However, CLG has indicated that it is willing – as with other pilots – to offer two important measures to limit the impact of that risk:

- a ***higher safety net threshold of 97%*** (i.e. the pool's retained funding could only fall by 3% before the government intervened to provide support, rather than the current 7.5% fall for individual councils); and
- a ***"no detriment guarantee"*** by which the pool as a whole could not be worse off than the participating authorities would have been in aggregate if they had not entered the pool.

It is not possible to guarantee that business rates will not go down – but that is just as true of the current system. It is however possible to guarantee that no council will be any worse off in 2018/19 (or future years, if the pilot continued) simply as a result of agreeing to participate in a pool. ***Each borough (and the GLA) will receive at least as much as it would under the current system and may, in addition, receive a share of the levy savings and additional retained growth across London.***

10 What happens if my borough's rates fall?

Under the current system, boroughs retain 30% of the rate income: the other 70% goes to the government and the GLA. If an individual borough's rates fall by, say £10m, its retained income declines by £3m.

Under the pilot, if rates in some boroughs fall while those in London as a whole grow, the pool will use a proportion of that growth to ensure that each borough is at least no worse off than it would have been under the current arrangements. So a borough whose rates fell by £10m could be better off than at present because the £3m reduction in income would be offset by a share of growth and levy savings elsewhere in London.

If rates in London as a whole decline, the safety net and "no detriment guarantee" will still ensure that each borough is at least no worse off than it would have been under the current arrangements (see Q9).

11 What happens if my borough's rates grow?

Under the current system, if a borough's rates grow by, say £10m, a "top-up" borough retains 30%, or £3m; £3.7m goes to the GLA, and £3.3m to the government. A "tariff" borough (see Q13) pays a levy of up to 50% on its growth. It therefore keeps at least £1.5m.

In a pilot pool, there would be no levy and 100% of the growth would be retained. None of the growth goes to the government.

A *top-up borough* whose rates grew by £10m would keep £3m, plus its share of the levy savings and additional retained growth across London.

A *tariff borough* would keep at least £1.5m, plus its share of the levy savings and additional retained growth across London.

The size of those shares would depend on the options for sharing the benefits decided by London Government (see Q17).

If a borough's rates grow while London's overall rates decline, the "no detriment" guarantee would ensure that that borough would still receive the increase it would expect under the current system.

12 What happens if my borough's rates grow more than others? Does pooling mean we have to share some of that growth?

Under the current arrangements, growth is already shared (see Q11).
In a pilot pool, whether a borough grows more or less than its neighbours, it will receive at least as much as it would from growing under the current system. But it could also receive a share of the money that would currently go to the government. The size of that share would depend on the options for sharing the benefits decided by London Government (see Q17).

13 Is my borough a "top-up" or a "tariff"?

In 2017/18 there are ten "tariff" boroughs (plus the GLA):

Camden	Hillingdon	Kingston upon Thames	Westminster
City of London	Hounslow	Richmond upon Thames	
Hammersmith & Fulham	Kensington & Chelsea	Tower Hamlets	

All other boroughs are currently "top-up" authorities.

14 Does a pilot pool have to cover the whole of London?

Before the General Election was announced, the government indicated its support for developing a pan-London pilot. Commitment to such a pilot on the part of the boroughs and Mayor will be voluntary and will have to be unanimous (see Q19).

In the absence of such a pilot, boroughs could continue their existing pool arrangements or set up new ones within the 50% retention scheme, although it is unlikely that these could achieve the same level of financial benefit. The government also indicated that authorities would be invited to apply to pilot 100% pools. However, it is unlikely that smaller groups of authorities would receive the same degree of support from government as a London-wide pool. No authority can belong to more than one pool.

Within a London-wide pool, there would be nothing to prevent groups of boroughs or sub-regions agreeing to share and jointly decide how to use the additional resources they receive (see Q17).

15 There's an Enterprise Zone in my borough. How will that be affected?

It won't. 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 honoured in any pilot. Pooling may also unlock the possibility of agreeing new "Local Growth Zones."

16 We've had a lot of valuation appeals in the past. Don't appeals make pooling too risky?

Since 2013 the scale of appeals against the valuation of business properties – particularly in London – has had a significant impact on councils' ability to project and grow their business rate income. The Government has introduced a new "Check, Challenge, Appeal" process in an attempt to simplify and limit the impact of appeals. However, it is not yet possible to judge the effectiveness of this measure; in the meantime, the 2017 revaluation is likely to lead to a new wave of appeals, particularly in London, where rateable values have risen much faster than the rest of the country.

This will be true whether or not London agrees to pool: entering a pool will not increase the risk, as no council will be worse off than it would otherwise have been (see Q9).

Under the existing system, many boroughs have had to set aside substantial ***provisions*** against successful appeals. Should those appeals not succeed, the boroughs would be able to release those provisions. If that occurred during the lifetime of the pool, we would need to work from the starting principle that the boroughs concerned should not lose out as a result. Provisions established during the lifetime of the pool would need to be accounted for within the pool.

17 How would the benefits be shared?

As with existing pools, this would be a matter for the members to agree.

In the joint London proposals we noted the need for an incentive system that recognises the complexity of maintaining sustainable growth in the London economy, where jobs and business rates are highly concentrated (half of London's rates are collected by four boroughs) but the developments needed to sustain that economy – such as housing, skills training, leisure and transport facilities – are more widely distributed.

Three broad options reflect the principles of incentivising growth, recognising need and facilitating collective investment:

a. Retention by the boroughs where the additional growth and/or levy savings arise – which would keep and increase the incentive for growth
b. Broader distribution to all pool members, in proportion to baselines or by some other measure – which would recognise the indirect contribution to growth and related demands for services in all boroughs
c. Retaining resources for collective action - for investment in projects to deliver future economic growth

These options are not mutually exclusive. As a simple example, a net gain of £150 million might be split three ways between £50m of locally retained (additional) growth, £50m distributed in proportion to baseline funding or population and a £50m investment pot. The key issue for London's government will be achieving a workable balance between individual benefits and collective opportunities to drive further growth.

18 What can we spend the money on?

Boroughs (or groups of boroughs) and the GLA would be free to decide how to spend any additional money distributed to them by the pool.

19 Who would govern a London pilot pool?

London Government – the boroughs and the Mayor.

Setting up a 100% retention pilot pool would require unanimous agreement. Subsequent decisions – for example, the use of any strategic investment pot – could be taken by voting arrangements devised to reflect the principles developed by the London Finance Commission and endorsed by Leaders and the Mayor in the joint consultation response in September 2016.

In order to manage the pool, a lead authority would be required to act as the accountable body to government. The same authority – or another – could 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.

20 How long would the pilot last?

The duration of both the pool and the pilot will be for London (and the government) to decide. The pilot might last until a new national system is fully implemented: pooling might last longer. Equally, both might last a single year.

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