



**Cabinet**  
11 September 2017

**Report from the Chief Finance Officer**

Wards affected:  
ALL

**London Business Rates Pilot Pool**

**1.0 Introduction**

- 1.1. This report provides an update following the July Finance Review reported to Cabinet on 24 July on the proposal for an expanded London business rates retention pilot via a pan-London pool in 2018/19. A draft prospectus from London Councils is enclosed in Appendix A and sets out how it is envisaged that a pilot pool could operate in 2018/19, should the government renew its commitment to this approach.
- 1.2. The report sets out the founding principles of a potential pool, options for allocating the financial benefits and the proposed governance and administrative arrangements for operating a potential pool.
- 1.3. The net one-off financial gain in 2018/19 from participating in the pool has been estimated at £229m for all London Boroughs and Greater London Authority. On current estimates the choice of distribution would give Brent a one-off financial benefit of between £4m and £4.8m.

**2. Recommendations**

- 2.1. That Cabinet note the report and the draft prospectus from London Councils enclosed in Appendix A.
- 2.2. That Cabinet note the two founding principles of the London Pool where no authority can be worse off than they would otherwise be under the current

scheme and that all London boroughs will share some of the financial gain arising from the pilot pool.

- 2.3. That Cabinet delegate authority to the Chief Finance Officer in consultation with the Leader of the Council to indicate an in principle decision to participate in a pilot business rates pool in 2018/19 and enter into negotiations in respect of the legal, governance and administrative framework, the sharing of any financial benefits other details in respect of the operation of the pool.

### 3. Background

- 3.1. As reported to Cabinet on 24 July, the Government's policy intentions with regard to 100% retention of business rates remain unclear following the General Election. However, the draft prospectus enclosed in appendix A sets out an approach by which all London Boroughs and the Mayor of London could remain in a position to negotiate a 2018/19 pilot pool.
- 3.2. The benefits this would deliver include early retention of 100% of growth across London, savings from the scrapping of any levy on growth, the potential 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.
- 3.3. The draft prospectus identifies two founding principles that are envisaged to 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.
- 3.4. In addition, four objectives are proposed 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).

**3.5.** 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.

#### **4. Options Appraisal**

**4.1.** 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 £229 million in 2018/19, based on London Councils' modelling using boroughs' own forecasts.

**4.1.** The objectives set out in section 3.4 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 need 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.

**4.2.** 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)

**4.3.** The potential net benefit for each borough from this model is set out in the charts in 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 current 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
<b>TOTAL (£m)</b>	<b>£229</b>	<b>£229</b>	<b>£229</b>	<b>£229</b>
Minimum borough gain (£m)	£1.2	£1.5	£1.1	£1.4
Maximum borough gain (£m)	£12.4	£14.9	£19.6	£10.1
<b>London Borough of Brent gain (£m)</b>	<b>£4.0</b>	<b>£4.8</b>	<b>£4.1</b>	<b>£4.3</b>

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.

- 4.4.** Consideration of the options in the context of balancing the objectives of incentives and need will be discussed further by the October Leaders' Committee and Congress meeting. Clearly option B benefits Brent from a financial point of view but provides the lowest investment pot for the pool. That said, as every borough will favour the option that meets their own interests and needs there is no guarantee that this would be the preferred option.
- 4.5.** The financial gains are based on estimates using forecasts from London Boroughs and therefore the figures in the table above are illustrative and a lower set of figures is entirely possible. However, the example serves to illustrate the potential direct financial benefit of joining a pool on the pilot basis being offered.
- 4.6.** Assuming the pilot goes ahead as currently proposed, whatever option is ultimately chosen, and therefore the amount of additional business rates income due to Brent, a process needs to be agreed for allocating the money. However, the Council would need to exercise some caution in developing proposals too soon given the current uncertainties describe above. In order to develop a broad range of potential options a consultation process will be considered, including with the business community. The role of scrutiny will also be important as part of this process. Proposals would then be brought forward as part of the budget setting process, subject to all the elements of a pilot pool being agreed within the required timescales.

## **5. Timetable**

- 5.1.** 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 by London Councils and had either previously authorised that decision to proceed with participation in the pilot, or that their authority's Leader had authority to do so.

- 5.2. The 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.
- 5.3. 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.

## **6. Conclusion**

- 6.1. The pilot would only proceed on a voluntary basis, and would require the unanimous agreement of all 34 authorities for it to proceed, which will clearly not be straightforward. However, as discussions at London-wide level are at a more advanced stage than it is appropriate to set out the relevant considerations here, together with appropriate delegations of authority. It is important to understand that if business rates are pooled across London the essential features of the system are still similar. Business rates growth will be retained by the local authorities, and the cost of a fall in total business rates will be suffered by those authorities. These are exactly the same opportunities and risks as exist under devolution without a pool, except that they apply at a London-wide level rather than at the individual borough level. Participating in a pilot pool would not bind the council to joining a pool once the full system comes into effect, so it might also be viewed as a relatively low risk way of testing the new system, especially as DCLG have promised a 'no detriment' guarantee to authorities so doing.
- 6.2. Provided that the draft prospectus results in a sufficiently broad consensus to pursue the policy a formal agreement would need to be drafted and consulted upon, leading to an agreement in principle by the October Leaders' Committee and Congress of Leaders and then signed off by each authority as part of its formal budget setting process. Therefore, at this stage, Cabinet is asked agree in principle whether to participate in a pool and it is recommended that Cabinet delegates to the Chief Finance Officer, in consultation with the Leader of the Council, authority to enter into negotiations in respect of the legal, governance and administrative frameworks and the sharing of financial gains and to report back to Cabinet as the position becomes clearer.

## **7. Financial Implications**

- 7.1. The financial implications are set out throughout the report.
- 7.2. The net one-off financial gain in 2018/19 from participating in the pool is estimated at £229m for all London Boroughs and Greater London Authority. On current estimates the choice of distribution would give Brent a one-off financial benefit of between £4m and £4.8m.
- 7.3. The financial gains are based on estimates using forecasts from London Boroughs and therefore the figures are largely illustrative and a lower set of figures is entirely possible. However, the example serves to illustrate the potential direct financial benefit of joining a pool on the pilot basis being offered.

## **8. Legal Implications**

- 8.1 The principles, but not the detailed arrangements and legal framework, that will apply to a pilot are set out in the draft prospectus and this report. Agreement in principle to participation in the pilot will enable Brent to participate in negotiations but will not commit Brent to participating in the pilot.

## **9. Background papers**

### **9.1. Cabinet report:**

24 July 2017 July Finance Review

## **10. Contact Officer**

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