For general release

REPORT TO:	**CABINET 10TH OCTOBER 2016**
AGENDA ITEM:	**6**
SUBJECT:	**AUTUMN FINANCIAL REVIEW**
LEAD OFFICER:	**RICHARD SIMPSON** **EXECUTIVE DIRECTOR RESOURCES (S151 OFFICER)**
CABINET MEMBER:	**COUNCILLOR TONY NEWMAN** **THE LEADER** **COUNCILLOR SIMON HALL** **CABINET MEMBER FOR FINANCE AND TREASURY** **COUNCILLOR ALISON BUTLER** **DEPUTY LEADER** **CABINET MEMBER FOR HOMES, REGENERATION AND PLANNING**
WARDS:	**ALL**

CORPORATE PRIORITY/POLICY CONTEXT:

The recommendations in the report will help to ensure effective management, governance and delivery of the Councils medium term financial strategy. This will enable the ambitions for the borough for the remainder of this financial year to be developed, programmed and achieved for the residents of our borough.

FINANCIAL SUMMARY:

This report gives an update on the progress for the Budget 2017/20 and sets out the medium term financial planning scenarios and assumptions, and forms the basis of the efficiency plan and the acceptance of the four year settlement from government.

FORWARD PLAN KEY DECISION REFERENCE NO. - The recommendations to :-
1.To accept the four year settlement from government and submit the efficiency plan as set out in the report,are key decisions (reference number 28.16.CAB). The decisions may be implemented from 13.00 hours on the 5th working day after it is made, unless the decision is referred to the Scrutiny and Strategic Overview Committee by the requisite number of Councillors

1. RECOMMENDATIONS

It is recommended that Cabinet:

1.1.1 Agree the Efficiency Plan as set out in Section 4 of the report.

1.1.2 Agree to submit the Efficiency Plan to satisfy the conditions of acceptance of the four year funding settlement for the period 2016/17 to 2019/20.

1.1.3 Note the response to the recent consultations on changes proposed to the local government finance system as set out in Appendix 1 and 2.

1.1.4 Agree that the Adult Learning service is to remain a directly delivered service at least until September 2018.

2. EXECUTIVE SUMMARY

2.1 The Council's budget for 2016/17 was approved by Full Council on the 29th February 2016 (Minute A21/16), as part of the annual budget setting cycle of the Council. This report provides an update on:

i. The current progress in delivering a balanced budget for 2017/20 and the council's efficiency plan.
ii. Major changes to Business rates which are being proposed by the government which will see 100% of business rates retained locally and the Council's responses to consultations.

2.2 As part of the December 2015 Spending Review, the Secretary of State for Communities and Local Government made an offer to councils to take up a four-year funding settlement for the period 2016/17 to 2019/20. To accept this offer, an Efficiency Plan must be prepared and published by 14th October 2016. The report proposes that the offer is accepted as it will create some certainty of resources and will be consistent with the council's approach to the Medium Term Financial Strategy (MTFS).

2.3 The offer made by the Government, as part of the Spending Review, is to any council that wished to take up a four year funding settlement up to 2019/20. The purpose of this offer is to help local authorities prepare for the move to a more self-sufficient resource base by 2020. The multi-year

settlements should provide funding certainty and stability for the sector that would enable more proactive plannning of service delivery and support strategic collaboration with local partners. The Government expects these multi-year settlements to be used to "strengthen financial management and efficiency, including maximising value in arrangements with suppliers and making strategic use of reserves in the interests of residents".

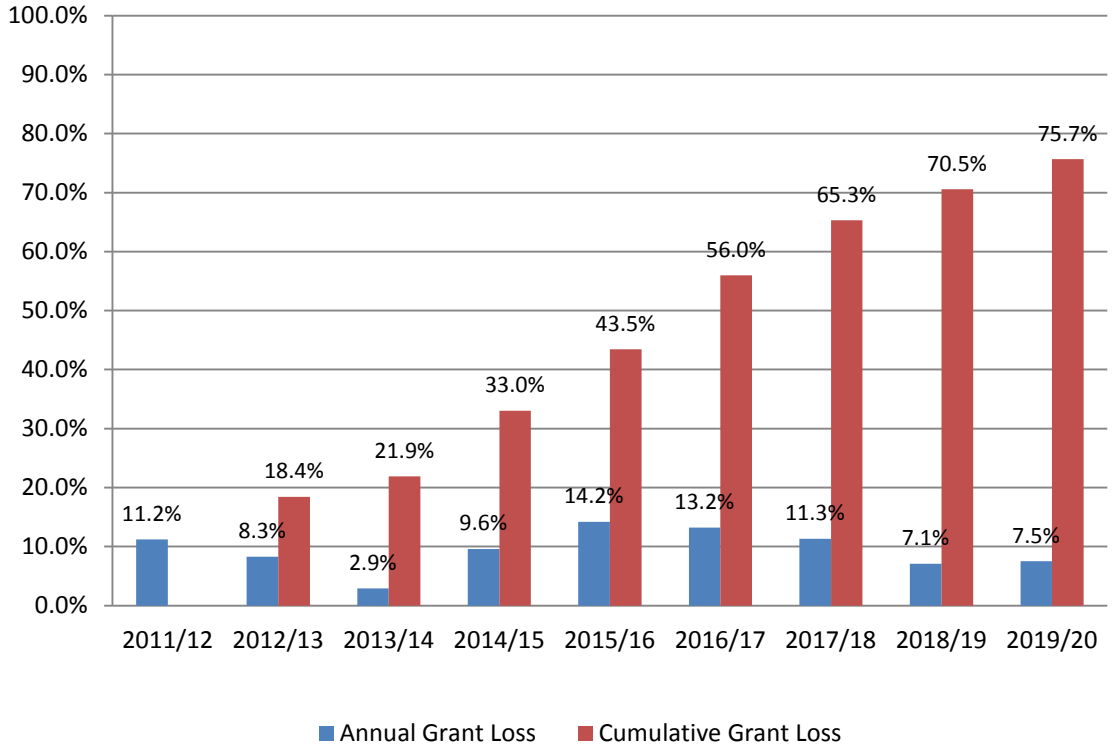
2.4 The current medium projections set out to Cabinet in February 2016 incorporate the funding provided within the four year settlement offer. However, it relates only to Revenue Support grant (RSG) which is a decreasing proportion of total Council funding, currently £46.8m in 2016/17 decreasing to £14.7m in 2019/20; that is 22% of our Core Spending Power in 2016/17 reducing to 6% in 2019/20. If this offer is accepted, it provides greater certainty as the funding received will not be less than outlined in the final settlement and would not be subject to the yearly process determining the local government finance settlement. Table 1 sets out the Settlement Funding Assessment (SFA) per year including RSG:

Table 1 – Settlement Funding Assessment

SFA	2016/17 £m	2017/18 £'m	2018/19 £'m	2019/20 £'m
RSG	46.80	32.58	23.30	14.70
Top Up	33.23	33.89	34.89	36.00
Local Share Business Rates	32.73	35.20	36.25	37.41
Total SFA	**112.76**	**101.67**	**94.44**	**88.11**

For Croydon this four year settlement has led to a cumulative reduction in funding of 39%. Graph 1 below gives details of the grant loss over the period 2011 to the end of the current comprehensive spending review period.

Graph 1: Croydon's Grant Reductions 2011/20



2.5 There are also still very significant challenges ahead for councils who, will have to make savings sufficient enough to compensate for any additional cost pressures being faced.

2.6 Nationally the core spending power shows an overall reduction of 0.3%. For Croydon the equivalent figures are a reduction of 0.5% by 2019/20. These assumptions do not take account of actual business rates income collected (within the SFA allocation), potential changes to New Homes Bonus and Better Care fund allocation methodologies, the impact of other grants (e.g. Dedicated Schools Grant and Public Health), inflation, local assumptions regarding taxbase and tax rate growth and growth in demand for services. They assume maximum levels of council tax increase each year.

2.7 Whilst trying to manage the reduction in resources, demand for our services continues to outweigh the available resources. A growing borough size, changing demogaphics in the borough, the local government spending cuts and the impact of changes to welfare reform are just a few of the factors that are contributing to this.

2.8 The offer made by the Government is as follows:

- "On 9 February we provided summaries and breakdown figures for each year to your s151 Officer. From those figures the relevant lines that are included in the multi-year settlement offer, where appropriate, are:

- Revenue Support Grant;
- Transitional Grant; and
- Rural Services Delivery Grant allocations.

- In addition, tariffs and top-ups in 2017/18, 2018/19 and 2019/20 will not be altered for reasons related to the relative needs of local authorities, and in the final year may be subject to the implementation of 100% business rates retention.
- The Government is committed to local government retaining 100% of its business rate revenues by the end of this Parliament. This will give them control over an additional £13 billion of tax that they collect.
- To ensure that the reforms are fiscally neutral local government will need to take on extra responsibilities and functions. DCLG and the Local Government Association will soon be publishing a series of discussion papers which will inform this and other areas of the reform debate.
- The new burdens doctrine operates outside the settlement, so accepting this offer will not impact on any new burden payments agreed over the course of the four years.
- The Government will also need to take account of future events such as the transfer of functions to local government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events. However, barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government expects these to be the amounts presented to Parliament each year".

2.9 To accept the four year offer, an Efficiency Plan has been prepared and is included in section 4 of the report. No guidance has been issued from Government for the production of these plans but it must cover the full 4 year period and be open and transparent about the benefits this will bring to both the council and the community. Further the Government does not expect this to be a significant burden on councils but rather a drawing together of existing corporate plans and strategies, and this has been the approach adopted to produce this Efficiency Plan.

3 BUDGET 2017/20

3.1 Table 2 below sets out the current forecasts in relation to the budget gap for 2017/20 before the delivery of any savings over that period. The overall gap is £45.6m.

Table 2 Budget Gap 2017/20

	2017/18 £m	2018/19 £m	2019/20 £m	2017/20 £m
Cut in Grant	13.7	11.6	7.2	32.5
Inflation	2.7	2.7	2.7	8.1
Debt Charges	-	1.5	1.5	3
Demand/Demographic Pressure	7.6	5	5	17.6
Gross Budget Gap	**24.0**	**20.8**	**16.4**	**61.2**
2% social care precept in 2017-20	-2.7	-2.7	-2.7	-8.1
Council Tax Base increases	-2.5	-2.5	-2.5	-7.5
Budget Gap	**18.8**	**15.6**	**11.2**	**45.6**

3.2 The assumptions built in to the budget are the same as previously detailed in the July Financial review report presented to this Cabinet. When considering these, the ongoing considerable demand pressures in the People Department is of particular note.

4. EFFICIENCY STRATEGY

4.1 In order to set a balanced budget for the next 3 years based on the assumptions set out in table 2 the council has to find savings of £45m. This efficiency stategy sets out the key principles and then programmes that will be targeted to deliver that level of savings.

4.2 The key principles and areas of focus of the efficiency programme are set out below;

- Getting the most out of our assets
- Better commissioning and contract management
- Managing Demand
- Prevention and early intervention
- Integration of health and social care
- Delivering growth
- Commercial approach
- Digital

These are all in addition to the continuing programme of seeking savings and improving productivity, which is integral to all areas of working in the Council.

Getting the most out of our assets

4.3 Savings of over £2m have already been delivered from making better use

of our assets (in addition to the reduced costs coming from the new approach to facilities management). The major savings to date have come from;

- The leasing of the 11th and 12th floor of Bernard Wetherhill House ("BWH")
- The sale of Janette Wallace House
- The ending of a number of property leases

4.4 40 sites have also been transferred to Brick by Brick to develop housing. This is expected to result in a significant capital receipt for the council which can either be used for transformation or to fund capital expenditure.

4.5 There will be continued focus over the next 18 months in identifying further asset opportunities this will include;

- Further opportunities to lease floors in BWH
- Reduction in running costs linked to managing demand
- A service based asset review in parts of the business to release or make better use of our operational assets.

Better Commissioning and Contract Management

4.6 The council uses third parties to deliver a number of our services. Therefore getting best value both in terms of delivery and cost is crucial. This has involved two key measures:

- Introduction of a 'Make or Buy' framework, to ensure that we have services delivered by the right parties (i.e. split between in-house, partnerships and third party
- Enhanced contract management focus, including the professionalisation of contract management, notably on the major contracts and the separation between operational management and contract management.

There have been a number of areas where savings been made over the last 12 months including £2m from the new approach to Facilities Management.

4.7 A corporate contract review will be starting this month, the focus of this will be to test the Council's contract management framework and proposed developments for driving a more commercial approach to contract management by reviewing contract performance and cost for all tier 1 contracts (contracts with a value of over £1m per annum).

4.8 Savings are already anticipated from a number of future commissioning opportunities over the next 3 years. It is expected these will deliver at a minimum £6m. The key ones are;

- Waste Collection and Street Cleansing
- Leisure
- Internal and external audit

Managing Demand and Early Intervention and Prevention

4.9 The focus of this is to look at what drives demand for services and then look at ways that the demand, notably for expensive services, can be reduced, whilst maintaining or enhancing the outcomes for residents. The work done in creating the 'Gateway' service and on the 'Top 50 families' are examples of this, which have already started to deliver tangible benefits. The programme going forward will deliver options in the medium and longer term.
In the short term a range of immediate actions are in place, including:-

- The application of the successful Gateway approach to the 'front door' of adult social care which is likely to bring both cost savings and service improvement.
- Introduction of Family Link workers to assist families
- The development of a recruitment and retention strategy for social workers has been commissioned to reduce the use of agency social workers
- The transformation of adult social care continues, which includes some detailed reviews of high cost care packages to ensure individual needs are being met in the most effective way.
- High profile enforcement and prosecution of fly-tipping and other anti-social behaviours

4.10 Over the previous months departments have been analysing and working up the opportunity areas to gain a better understanding of the activities and projects required to deliver financial benefits over the next four financial years.

4.11 This approach has identified a number of opportunity areas and these include :

Gateway extension and Family approach: Across all parts of the People Department, including at the front door, supporting families at risk or in need, looking at all aspects of their assets, needs and aspirations, to avoid crises and increase independence and empower those families

Adults Social Care: Embedding an asset based approach at all points of contact with the council, and in commissioned Information Advice and Guidance services. Redesign brokerage controls and processes to increase our commercial focus, and develop strategic domiciliary care, residential and nursing provider relationships that include increased telecare options. Greater personalisation.

Early Intervention & Children's Social Care: Use analytics to understand what support is required in the community, to commission this support and to direct families appropriately. Work with partners to agree a shared risk-based operating model which makes full use of the community support available. Optimise processes across re-modelled pathways, and implement a new model of provision for care leavers and fostering.

Temporary and Emergency Accommodation: Redesign communications to embed consistent messages to residents at all points of contact. Develop initiatives to target prevention and early intervention. Implement a supply side strategy based on cost modelling and supported by process redesign

Public Health: Develop an outcomes framework against which contracts will then be reviewed to determine value for money, delivery against outcomes and alignment to wider council strategic priorities. Use behaviour change approaches across the council to deliver improved public health outcomes for residents.

Place: Divert or increase resources to prevention and increase efficiency within teams. Increase income from licensing and trade waste. Work with staff, residents, landlords and partners to encourage greater pride of place, to increase recycling, reduce flytips and divert waste from landfill.

Travel: Design and implement an adults transport policy to increase independence.

Buildings: Deliver a service led asset review to establish building requirements, to identify the most effective whole council approach to use of space (aligned to outcomes as well as value for money) and to deliver the recommendations of the review. Reduce Facilities Management and variable costs through a behaviour change initiatives.

Back Office Support Services: Design and implement a new operating model for back office based on easy access to services (self-serve). Implement a more mature approach to risk based decision making across the organisation, enabled by training/behaviour change, improved record collection, reporting, and inspection regimes.

Income and Debt: Streamline policy and processes to maximise income and debt collection. Implement a centralised approach for customers with multiple debts, and design services to improve customer financial resilience.

4.12 The approaches outlined above are designed to be complimentary to existing activities and projects in the council, and through delivering the approaches above it is estimated that benefits of between £17m and

£30m will be achieved over the next 4 years, of which between £11m and £19m in the next 2 financial years.

4.13 Over the coming months the detail behind these opportunities will be worked up to confirm the benefits and investment required.

4.14 As reported to Cabinet in July the council will be taking advantage of the flexibility to use capital receipts to fund a number of the projects above.

Integration of Health and Social Care

4.15 As previously reported to Cabinet the Council and CCG have been working in partnership to achieve integration both in commissioning and at the point of service delivery, to provide better outcomes for residents at lower cost for the Council and the CCG.
Recently this has been exemplified in the Better Care Fund (BCF) programme and through the establishment of multi-disciplinary health and social care teams, including the Transforming Adult Community Services (TACS) model.
To realise further benefits of integration, the Council has been working with the CCG and committed to a process looking at the whole of the health and social care system for older people. Instead of simply redesigning services and customer journeys, the Council and CCG decided to go back to first principles and ask Croydon people what outcomes they are seeking from the whole system, resulting in the Outcomes Based Commissioning project for over 65's.

4.16 Commissioning for outcomes rather than activity allows services to be delivered in a personalised way, and designed to focus on wellbeing. It enables providers to truly transform care, as it removes existing payment mechanisms that can be barriers to integration. It rewards both value for money and delivery of better outcomes

4.17 A shared vision has been developed between the Council and Croydon Clinical Commissioning Group for all partners (statutory, voluntary and community) to come together to provide high quality, safe, seamless care to the older people of Croydon that supports them to stay well and independent. People will have a co-ordinated, personalised experience that meets their needs in the context of their family circumstances.

4.18 Outcomes Based Commissioning focuses on measuring and rewarding outcomes rather than inputs. Measuring outcomes and aligning incentives will enable the Commissioners to monitor performance across the whole health and care economy and, when combined with appropriate contractual and payment mechanisms, will allow providers to work together to deliver whole person integrated care and achieve a common set of goals

4.19 The project is progressing and it is anticipated that the Letter of Intent to enter in to a Commissioner/Provider Alliance will be agreed in

December 2016 with a go live date of April 2017. This new model of provision will result in improved service delivery and financial savings to both the Council and CCG. Over the coming years, we would seek to build on this in other areas of health and social care.

Sustainability and Transformation Plan

4.20 In December 2015, the NHS shared planning guidance 2016/17 – 2020/21 outlined a new approach to help ensure that health and care services are built around the needs of local populations. To do this, every health and care system in England will produce a multi-year Sustainability and Transformation Plan (STP), showing how local services will evolve and become sustainable over the next five years – ultimately delivering the Five Year Forward View vision of better health, better patient care and improved NHS efficiency.

4.21 To deliver plans that are based on the needs of local populations, local health and care systems came together in January 2016 to form 44 STP 'footprints'. Croydon is part of the South West London Strategic Planning Group and is working with the health and care organisations in the group to develop a STP which will help drive genuine and sustainable transformation in patient experience and health outcomes of the longer-term.

4.22 The footprints should be locally defined, based on natural communities, existing working relationships, patient flows and take account of the scale needed to deliver the services, transformation and public health programmes required, along with how they best fit with other footprints.

Delivering Growth

4.23 The delivery of economic growth remains a key part of our efficiency strategy. Growth can support this strategy in a number of ways;

- Increase prosperity and reduce dependency on the council and its services
- Lead to increased income whether from business rates or from service income such as planning and parking
- Increase council tax income from the delivery of new homes

4.24 The Council was successful in agreeing the 'Growth Zone' with Central Government. During the next four years, this will see very substantial investment in the Borough, which will benefit the residents and businesses in the borough and improve the finances, through increased income and reduced costs.

4.25 The council approach to regeneration and major projects has been set out a number of times to Cabinet. These projects improve the lives of the community, generate employment, as well as supporting the delivery of revenue savings. Two examples are:

- Fairfield – provide a focal point for culture in the borough, with all the benefits that will bring, as well as reducing subsidy from capital investment of £30m
- New Addington Leisure Centre – provide enhanced facilities for a community with substantial need, whilst allowing the removal of subsidy from an £18m new centre

4.26 In order to take advantage of the opportunities offered from business rates income a new discretionary business rates policy is being drafted and will be presented to this Cabinet in December for agreement. The key objectives of the policy are to increase or safeguard the number of jobs in the borough by;

1. Supporting inward investment from large companies bringing significant numbers of new jobs to the borough;
2. Supporting smaller businesses to locate in the area and helping them through difficult periods to become sustainable in the longer term;
3. Bringing empty space back into use to support the economy.

From the range of proposals in this area the savings should be over £5m in the period of this strategy.

CALAT

4.27 Since the June 2016 in principle Cabinet decision that the provision of adult and community learning currently provided through CALAT should be commissioned by the Council from an external provider with effect from September 2017, there have been a number of developments:

- Further financial analysis has identified that an estimated £500k would be lost by outsourcing, as a result of the loss of CALATs contribution to council overheads which would create a short-term budget gap for the council. In addition there would be a one off cost of approximately £120k to manage the change in-year.

- Confirmation was received in July from the SFA that the grant in 2016/17 will be at the same level as in 2015/16. The service anticipates a growth in income over at least the next two years.

- The Further Education Area Review is due to report in the current calendar year leading to anticipated mergers of existing colleges: the impact on colleges in the local area is currently uncertain.

- The London wide review of adult learning providers is due to report in the autumn and will report into the FE Review. There are early indications of opportunities for LA providers to work more closely together creating efficiencies and savings.

4.28 Given the above it is recommended that the council continues to run the service in-house until at least September 2018, enabling the decision on a new delivery model for adult education to be informed by the outcomes of the FE and Adult education reviews. Meanwhile work will continue to mitigate the financial impact to the Council of CALAT.

Commercial approach

4.29 There have been a number of areas of the council where a more commercial approach is now taken and the aim is to do more of this where it works.

4.30 The overall objective is to 'To become an innovative and entrepreneurial authority by generating extra revenue through trading and business improvement."

4.31 The includes ensuring that charges are set to cover cost where possible and also the creation of companies to deliver returns back to the council and support the achievement of key objectives. The two key areas where this has been done to date are;

- Traded services with schools – Octavo
- Housing development company – Brick by Brick

4.32 It is also vitally important in this challenging financial period for the council to make use of its balance sheet and also its access to finance and the low current interest environment. This drives the idea for the Revolving Investment Fund (RIF) where the council borrow at low rates and lend at commercial rates based on a viable business case. The main focus of the RIF over the next 24 months will be to act as debt and equity funder to Brick by Brick.

4.33 It is anticipated that a range of projects in this area will save over £5m over the period.

Digital

4.34 Projects under way have delivered or will deliver some £4 million of savings. We continue to build on our digital by design approach, wherever possible providing services on-line to improve access whilst reducing service costs. The digital and enabling project continues to work with sevices to develop opportunities and to support the approaches below. This approach is underpinned by a digital inclusion program which ensures all our community can benefit from digital opportunities, not just for council services but for their wider benefits.

Summary

4.35 It is expected that this strategy will deliver over 90% of the savings required over period. This alongside more standard service efficiencies are the basis of the strategy.

5 Timetable

5.1 Over the coming month's further reports will be provided to members with the culmination of the budget report to cabinet and council in February 2017. Table 3 below gives details of the timetable leading up to the final report.

Table 3 :- Budget Timetable

Date	Description
23/11/2016	Autumn Statement
Dec 2016	Local Government Resource Review - Draft settlement 2017/18
13/12/2016	Scrutiny Committee Meeting – detailed 3 year proposals
Jan 2017	Local Government Resource Review - Final Settlement published
20/02/2017	2017/18 - Budget and Council tax setting - Cabinet
27/02/2017	2017/18- Budget and Council tax setting - Council

6 Government Funding Changes

6.1 The government is continuing to make change to the funding arrangement for local authorities. Outlined below are the details of some of these changes and where applicable the impact of these changes where known.

Business Rates

6.2 Up to 2020, there are going to be a number of significant changes to Business Rates, including:

- Business Rates Revaluation in April 2017
- A new appeals process
- A new revaluation process
- The introduction of 100% Business Rates Retention
- The Reset of the Business Rates Baseline

The potential implications of these changes for Croydon are discussed below.

Business Rates Revaluation

6.3 The business rates base will be revalued, effective from April 2017. DCLG intend for the process to be revenue neutral for local government nationally. However, the extent to which this will be the case is not possible to forecast at this stage. DCLG will make an allowance for the national loss in Rateable Value, due to appeals, following revaluation. If this estimate is too low, then local government will lose out.

6.4 The financial implications of revaluation for individual local authorities is more difficult to estimate, as these will be a combination of the accuracy of the national allowance for appeals and the extent to which local appeals are above or below the estimated national average.

6.5 Due to the number of unknowns it has therefore been assumed that revaluation will be revenue neutral at this stage for Croydon. However, officers will be monitoring developments around the updated Rateable Values and the DCLG's approach to appeals over the coming months, with a view to adjusting the medium term resources projection, if needed.

Business Rates appeals

6.6 In October 2015, the government consulted on proposals for a new approach to business rates appeals. The reforms would see the introduction of a three-stage system: Check, Challenge, and Appeal. The objective of the reforms is to reduce the complexity and increase the speed of the appeals process.

6.7 The Government have now issued a second consultation paper regarding the required amendments to existing regulations, with the intention of introducing the new system in April 2017.

6.8 If the reforms meet the objective set by the government, they could potentially reduce the number of appeals that arise and that remain outstanding; and therefore reduce the financial uncertainty that the current appeals process creates.

Business Rates Revaluation

6.9 In March 2016, the Government published a discussion paper regarding the challenges of delivering more frequent business rate revaluations.

The paper discusses three potential approaches for more frequent revaluations, these being:

- The current system;
- A system based upon self-assessment; and

- A formula based system.

6.10 Whilst more frequent revaluations will create greater financial uncertainty due to the potential for local gains or losses from the allowance for appeals, if the proposals were coupled with changes that reduced the likelihood of appeals, there may be a reduction in business rate income volatility as a result. However, any new system will create additional risks to local government, in terms of its suitability and the transition to it. There would also be winners and losers (in terms of business rate payers) within any new approach, even with transitional arrangements. Where businesses do receive higher bills as a result, this may create problems in terms of their longer term viability, and therefore for local authorities, the ability to collect the business rates.

6.11 At present the medium term financial forecast assumes that the reforms to both appeals and revaluation will be revenue neutral for the authority. However, developments will be closely monitored by officers to ensure any risks emerging are reflected appropriately within resource forecasts.

100% Business Rates Retention

6.12 In July 2016, DCLG published the consultation paper "Self-sufficient local government: 100% Business Rates Retention". This paper begins to deal with issues in transferring the remaining 50% of business rates income to local government; consulting on issues such as which existing funding streams will be withdrawn as a result of the move and how income will be split in multi-tier areas e.g. between the GLA and London Boroughs. It is still not known if 100% Business Rates Retention will be introduced in 2019/20 or 2020/21.

6.13 The paper invites views on the general principles involved in moving to the new system, rather than any technical specifics. As a consequence it is not possible to forecast the implications of this reform for Croydon. However, it would appear to be the intention of Government to make this change revenue neutral for local government and, where possible individual authorities. Whilst there will be still the possibility to lose (or to a lesser extent, gain) from this transfer, there is perhaps a greater potential for it to be close to revenue neutral, compared to other changes (i.e. revaluation or the Reset). As the main element will be a transfer of funding which is easier to objectively measure (at least initially), compared to the local implications of national policy change.

6.14 A second, more technical, consultation paper is planned for later in the year and this should provide greater insight into how the new system might work.

6.15 The funding for the sector beyond 2020 (and therefore beyond Spending Review 2015 the final year of which is 2019/20) will still be a key component of the funding local authorities receive under 100% Business Rates Retention e.g. will the government assume for further

reductions to Revenue Support Grant beyond 2019/20 and / or allow local authorities to retain the CPI increase on business rates applied after 2020?

6.16 Prior to the introduction of the full scheme the intention is for London to become a pilot area in 2018/19. This may involve retaining a higher share of business rates in exchange for the loss of existing funding streams e.g. Revenue Support Grant or the transfer of additional responsibilities. It is the intention of the Government that those participating in the pilot schemes should not be financially disadvantaged.

6.17 Given the lack of clear detail regarding 100% Business Rate Retention and the intention for it to be revenue neutral at both a local government and local authority level, Croydon has not adjusted it medium term projections for this change.

Business Rates Reset

6.18 Alongside the move to 100% Business Rates Retention, the target level of business rates that authorities need to collect (known as the Business Rates Baseline) is to be reset in 2020. This figure is key to individual authorities, because where a target is set too high they will receive a lower amount of business rates revenue than was originally allocated via the needs based funding formulae (although, there are resource gains to be made if it is set lower than anticipated business rates income).

6.19 If the methodology in determining the baseline is similar to that used in 2013/14 (for the current baseline), it will be based upon actual amounts collected in a specified number of prior years. This approach may be advantageous to Croydon as it has been below its baseline over the period 2013/14 to 2015/16 and therefore, all things being equal, it could expect a have the baseline reduced as part of this reset. This should provide it with a lower target amount to collect and therefore increase the chance of exceeding the future target and therefore receive higher revenue from business rates than the initial target allocation.

6.20 Given the amount of risk and reward is likely to increase post 2020 (i.e. Croydon currently receives 30% of business rates retained and this is likely to increase), a lower business rates baseline is even more important than at present.

6.21 At this stage it will be assumed that Croydon is be able to achieve its target level of business rates post Reset, which represent an increase of £0.9m per annum from 2020/21.

6.22 It should be noted that these changes to business rates retention should not affect the borough's Growth Zone. This mechanism will create an income stream by ringfencing for the Council the uplift in business rates

income within the specified Growth Zone area, as defined from the zone's start date. Receipts will then be used to fund some £300m of infrastructure delivery within the zone over its 20-25 year life. Without the Growth Zone mechanism in place, gains from business rates uplifts could be removed by periodic "resets" (see paragraph 6.18 above).

6.23 All of the above changes could have an impact on Croydon's future resources, depending on the final approach taken by Government to each of the reforms outlined. Whilst at this stage an assumption of revenue neutrality would appear reasonable, each of the elements will be monitored closely to ensure the medium term financial projection reflects likely future material variances. In addition to monitoring developments, officers will also be contributing to consultation papers, where appropriate, to try and influence the changes made in a positive way for the borough.

6.24 Representatives from all the London Boroughs have submitted an initial response to the Devolution of Business Rates based on principals agreed with the Leaders of all the London Borough and the Mayor. The response is attached in appendix 1. The Croydon response which has been prepared in partnership with a number of other London boroughs is attached as appendix 2.

6.25 It is worthy of note that this whole approach means that the historic underfunding of Croydon, which has become so acute in the last six years, will not be addressed in the medium term and, indeed, based on some of the questions being consulted on, may not be corrected for even in the longer term. In addition, the much-trailed but as yet undefined additional responsibilities in return for the 100% business rate retention could also have significant implications for the Council.

Dedicated School Grant

6.26 The Dedicated Schools Grant (DSG) is a grant that funds all aspects of education that relates directly to children. This is split into 3 blocks, a schools block, a High Needs block and an Early Years block.

6.27 The DSG allocation for Croydon for 2016/17 is £312.58m (£309.2m 2015/16). The DSG is reduced by recoupment for academy funding. This is currently estimated to be £126m but will be subject to change throughout the year as schools convert to academies. The increase in 2016/17 is mainly due to an increase in pupil numbers.

6.28 The Department for Education (DfE) are currently mid-way through consulting on the changes that they are proposing to make to the way education is funded through the implementation of the National Funding Formula. They have recently announced that they will delay the implementation of the National Funding Formula (for schools and high

needs) by a year, moving its implementation back from April 2017 to April 2018.

6.29 The Department for Education launched a consultation on the way Early Years is funded on the 11th August 2016. The intention being consulted upon, is to implement a new Early Years funding formula from April 2017, with the increase in hours funded from 15hours to 30hours, to come in from September 2017. The results of the consultation are anticipated later in the autumn.

6.30 These changes could have a considerable impact on the Council's finances.

Welfare reform

6.31 There are changes to welfare benefits, such as Universal Credit, changes on Housing Benefit (notably in respect of temporary accommodation) and the Benefit cap that, as detailed previously to Cabinet, could have a substantial adverse impact on the Council's finances. The Council is working hard, both in terms of proactive work in the Gateway Service and lobbying on these areas.

7 HOUSING REVENUE ACCOUNT (HRA)

7.1 The HRA is the main business account for the housing service. It remains a ring-fenced account, funded primarily from tenants' rents. The services provided to tenants, for example responsive repairs, management services and caretaking, are resourced from this account.

7.2 Long term financial planning is based on the HRA 30 year business plan which is updated annually to reflect actual expenditure, changes in allowances and financial projections.

7.3 The Welfare Reform and Work Bill have legislated that council's must reduce rents by 1% per annum from 2016/17 for the next 4 years. The reduction in rents means that the HRA will need to make saving in expenditure of at least £31m over the four year period. The budget for 2016/17 has been balanced without making any changes to service provision, however further work is currently underway to review changes required in 2017/18 on in order to balance the budget.

7.4 The future position of the HRA remains subject to further uncertainty in light of a second round of policy proposals issued by the government, beyond the 1% reduction in rental income. The main proposals that will affect the council's finances are explained below:

Disposal of "high value" properties

7.5 Prior to the General Election in May 2015, the Government announced

that it proposed to extend the right to buy to housing association tenants, funded from the proceeds of selling “high value” council houses as they become available. The initial indications were that “high value” homes would be those that are in the top third of values for their size and area. As the payments will be based on assumptions about receipts from void sales, it may be the case that actual receipts will fall short of the payments due. In this case local authorities will need to fund the payments from other resources. Croydon currently has an average of 700 void properties per annum. Therefore if the Government’s assumption that a third of these would be classed as “high value”, the impact could be the loss of 180 homes each year. It is currently anticipated that under this legislation we will sell 30 homes in 2017/18 and 60 per annum from 2018/19 on.

Pay to Stay:

7.6 The Summer Budget Statement included a policy announcement regarding high income social tenants (HIST). It stated that registered providers would be required to charge market or near market rents to tenants where the household income is in excess of £40,000 in London and £30,000 outside London, referred to as “pay to stay”. The accompanying policy costings report initially indicated that implementation of pay to stay proposals would commence in 2017/18. However, due to the political landscape during 2016/17 it is currently anticipated that this will not be implemented until 2018/19. Household income takes into account the two highest incomes earned by the household, and it is expected that rents would be reviewed if the household experiences a sudden and ongoing reduction in income. It is anticipated that this policy will be cost neutral to the HRA in 2018/19 but will cost us £1m per annum from 2019/20.

Right to Buy Receipts

7.7 Right to buy allows Council tenants to buy their council home at a discount. The council is able to retain its right to buy receipts on the proviso that, the receipts from additional Right to Buy sales will be used to support the funding of new affordable homes for rent on a 'one for one' basis. However as receipts are generated from sales provided at discount rates, additional capital is required in order to finance the new affordable homes for rent.

If receipts are not spent in this manner, within a specified timescale then they are required to be re-paid to central Government with interest.

7.8 In order to retain these receipts the council will need to borrow capital funds, to supplement the discounted receipt in order to purchase new stock at the market price. Due to the ceiling imposed by Government on borrowing, the Council is not able to source all of the funding to enable all receipts to be retained, without making significant budget savings from elsewhere within the HRA.

7.9 In addition to the impact of these changes on the Housing Revenue Account, they are likely to put significant pressure on other (General Fund) services, such as Gateway and homelessness.

Changes in Rent

7.10 The Welfare Reform and Work Bill requires all registered providers of social housing in England to reduce rents by 1% a year for four years. Rents for new tenants must also reflect the 1% per annum reduction. Where tenants are eligible for receipt of Housing Benefit, the level of benefit will reflect the lower rent. However, a small number of tenants may be subject to the overall benefit cap.

7.11 Social rents in Croydon are currently approximately 40-50% of the private sector equivalent. New build council properties are let at an affordable rent which is based on the GLA guidance for London at 65% of the comparable private sector market rent. Average market rents for Croydon have increased by an average of over 5% in the past year and therefore council rents remain an affordable option.

8, CAPITAL

8.1 Capital spend and borrowing is an important part of the council financial strategy. As set out earlier in the report the use of the RIF is a key income stream for the council. Any future debt will be focused on 3 areas;

- To deliver statutory responsibilities (such as school places)
- Where a clear income stream exists (such as RIF projects or the growth zone)
- Where it can be demonstrated that the investment deliver key long term objectives (such as the Onside youth zone, Fairfield Halls and New Addington Leisure Centre)

8.2 Detail on future year's capital will be part of future budget reports to Cabinet.

Revolving Investment Fund – RIF

8.3 The Council has created a Revolving Investment Fund in order to deliver the scale of change required in Borough.
A Revolving Investment Fund (RIF) is by definition a self-sustaining investment portfolio that draws in significant levels of funding and assets from any number or type of contributor and, over a significant period of time, typically 20-30 years, provides funding, finance, debt, skills and resource to a portfolio of projects, whilst ensuring a more strategic and joined up approach to Council investment.

8.4 Two key projects currently benefiting from the RIF are Brick by Brick and the Taberner House Scheme.

8.5 **Brick by Brick** is the Council's housing development company.

8.6 The Council are acting as equity partner and debt funder to the initial schemes. The debt/equity ratio and the proposed interest rates are set at market terms. The debt/equity split is 75:25 and the proposed interest rate is 5% for debt and a coupon of 10% would be paid on equity. Debt would be repaid after land and then equity repayment would follow.

8.7 Acting as funder to the development will deliver a revenue income from the interest earned. The Council will lend at a margin on its borrowing costs. Until the detailed cash flow is known the positive impact for the Council is not known. However given the total cost is expected to be c£270m over approx. 2 years then a margin of 3% for example on borrowing would generate c£8m.

8.8 **Taberner House Project**. The Council has agreed to act as a funder for this scheme of up to £100m. Terms have yet to be agreed but again it is expecting to generate a substantial margin on the borrowing which will help balance the budget.

9. FINANCIAL CONSIDERATIONS AND RISK

9.1 This report deals with the Financial Strategy assumptions in planning a balanced budget over the medium term.

9.2 There is a level of risk associated with the assumptions made within this report. These risks are referred to elsewhere in the report and detailed below for completeness.

- Changes to funding especially in relation to the proposed changes to Business Rates Retention which are currently being consulted on.
- Dedicated Schools Grant – the DfE are currently consulting on proposed changes to the funding of education and the introduction of a national funding formula. Until the outcome of the consultation is known there is a risk associated with our level of funding.
- EU Referendum vote - the implications of this vote on our funding remain unknown and therefore there remains a level of risk.
- Further demographic pressures – as the formula continue to be frozen in this period, as it has been since 2010, the impact of increased population and need will have particular impacts on the Council.
- Demand Growth – the budget assumptions for future years contain a level of growth based on current demand and anticipated expectations. As with all models there is a level of uncertainty and if demand were to be greater than modelled this will have an impact on the budget gap.
- There are a number of significant savings options factored in to the budget model and as with all future years there remains a level of risk around the delivery of these options which will need to be carefully managed and reported.
- UASC – Croydon currently has a high level of UASC and has been able

to negotiate funding rates outside of the national agreed formula to help with the high level of costs. This funding is negotiated annually and there remains the risk that this funding will be reduced in future years at a quicker rate than the new national dispersal programme.

- Temporary Accommodation – the budget contains ambitious targets for reducing the need for temporary accommodation and there is a risk that these cannot be achieved in the planned timescale if demand continues to rise rapidly.
- Additional responsibilities – there is a possibility that, in this period, the Council is given additional responsibilities without commensurate additional funding.

Other national legislative impacts – as detailed elsewhere, we have already identified the risks associated with known welfare reform. In addition, future legislative changes could well have further adverse impacts on the Council's finances.

(Approved by Richard Simpson, Executive Director of Resources)

10. SUMMARY AND CONCLUSIONS

10.1 As all Members are aware, setting a budget for 2017/20 that is robust, balanced and deliverable is challenging, and will involve a number of difficult decisions in these challenging times. The strategy set out in this report is designed to both deliver savings or increased income to the council whilst also protecting front line services

11. COMMENTS OF THE SOLICITOR TO THE COUNCIL

11.1 The Solicitor to the Council comments that the information in this report supports the Council's statutory duty to set a balanced budget.

(Approved by Jessica Stockton on behalf of on behalf of the Council Solicitor and Monitoring Officer.)

12. HUMAN RESOURCES IMPACT

12.1 There are no direct Human Resources implications arising from this report. However, the action plans and transformation programmes included in this report, or those that need to be developed in response to the financial challenges faced by the Council, are likely to have HR impactions. Where that is the case, the Council's existing policies and procedures must be observed and HR advice must be sought.

(Approved by: Debbie Calliste on behalf of Approved by: Heather Daley, Director of Human Resources)

13. EQUALITIES IMPACT

13.1 There are no specific issues arising from this report.

14 ENVIRONMENTAL IMPACT

14.1 There are no specific issues arising from this report.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1 There are no specific issues arising from this report.

16. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

16.1 These are detailed within the report.

17. OPTIONS CONSIDERED AND REJECTED

17.1 The options considered are detailed in the report. The only option rejected was the one of do nothing as this is not viable.

Report Author: Richard Simpson, Executive Director Resources (S151 Officer)
Contact Person: Richard Simpson, Executive Director Resources (S151 Officer)
Background docs: Financial Strategy 2015/19

Appendix 1 – Response to 100% business rates consultation
Appendix 2 – Response to Needs review consultation

Business Rates Retention Consultation – Appendix 1

"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:
    - the 50 per cent growth retention rate is too low (we believe should have been 100 per cent from outset);
    - there is a levy on disproportionate growth for tariff authorities;
    - 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
    - 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 locally[1].

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.

[1] http://www.publications.parliament.uk/pa/cm201415/cmselect/cmcomloc/503/50305.htm

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.

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.[2]

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

[2] HMT: Public Expenditure Statistical Analysis (PESA) data 2014.

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.

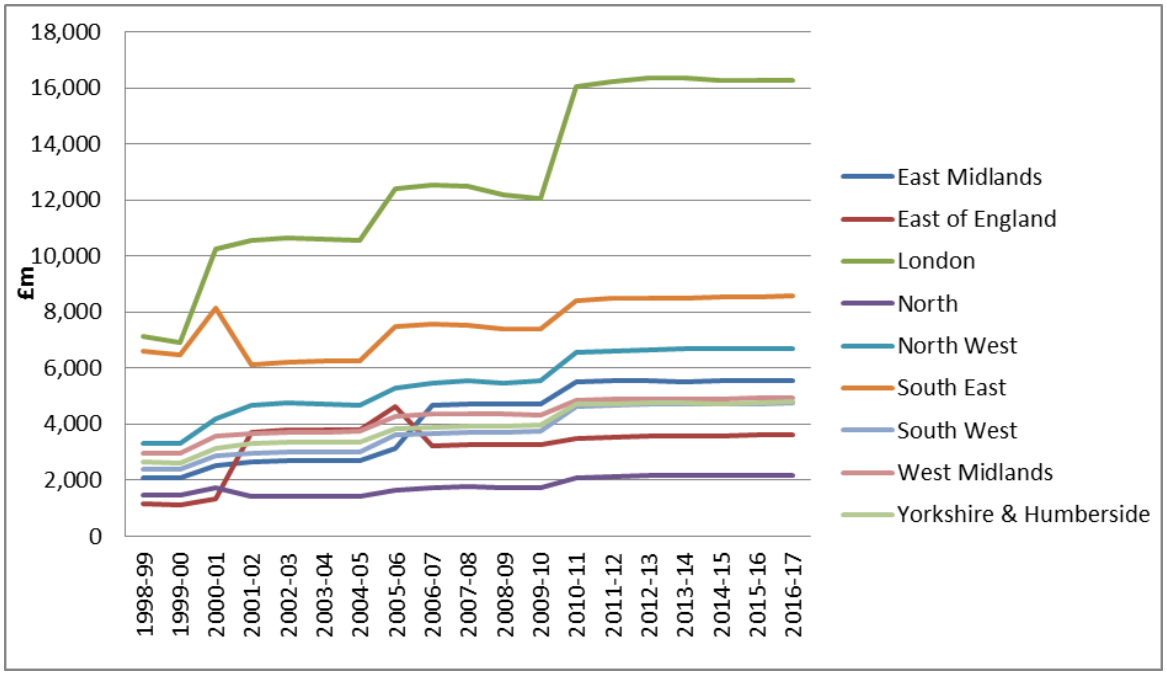
28. London Government believes that a locally controlled business rates system for London would help deliver this, ensuring greater economic growth for London as a whole than one in which the parameters were controlled by central government. Freedom and flexibility to design a more responsive and sustainable 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

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.

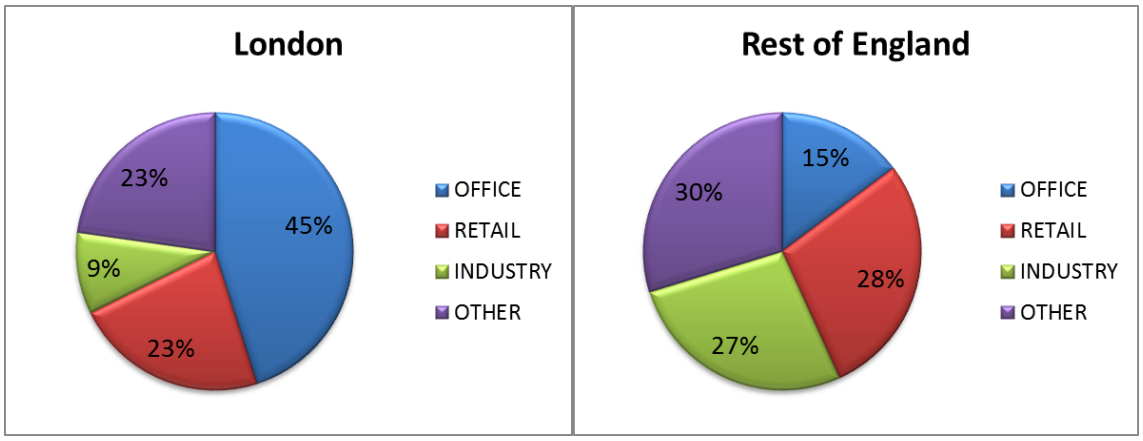
37. "De-coupling" London's business rates system from the rest of the country would prevent the capital's robust property market from continuing to distort the operation of the national system and to allow business rates baselines to increase outside of London at a rate which reflects local authorities' 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 2015[3]

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.

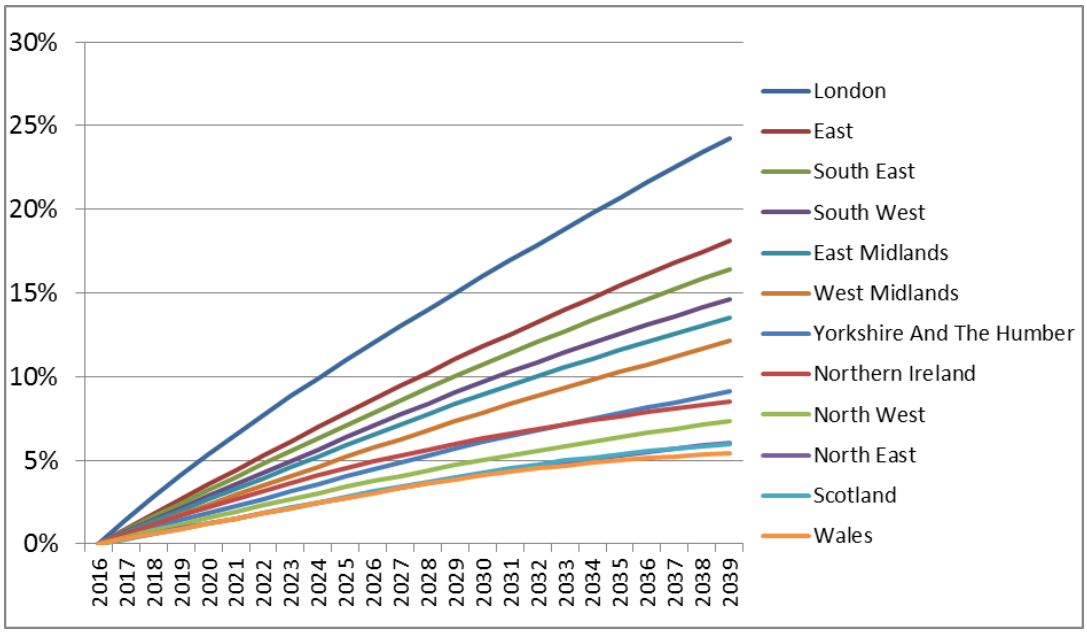
42. Overall, London continues to show significant relative deprivation: nearly two thirds of London's lower super output areas (LSOAs) have above average levels of deprivation (according to the 2015 Index of Multiple Deprivation). Just under a quarter of London's LSOAs fall within the most deprived 20 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 2016[4]). 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).

[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/449291/NDR_Stock_of_Properties_Tables.xls
[4] 2014-based National and Sub-National population projections (ONS)

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

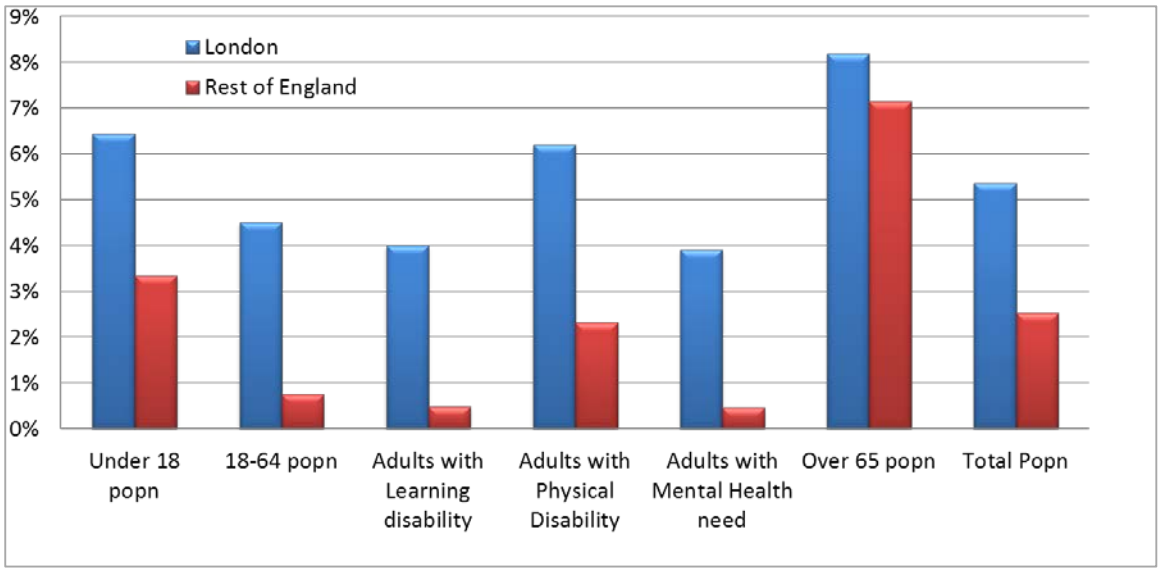


Source: ONS, 2014-based Sub-National Population Projections

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



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 rates[5], 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

[5] 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"

quantum rise to £7.3 billion and, with an estimated increase of around £1 billion due to the 2017 Revaluation[6], 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 aggregate needs assessment (funding baseline) and enable funding and business rates baselines to be set within London.

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

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 be 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

believes 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 carparks, 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"[7]. 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.

[7] http://www.londoncouncils.gov.uk/download/file/fid/11161

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 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 follows[8]:

- **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.

[8] 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

- **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.

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 are 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.

<u>Tier Splits</u>

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

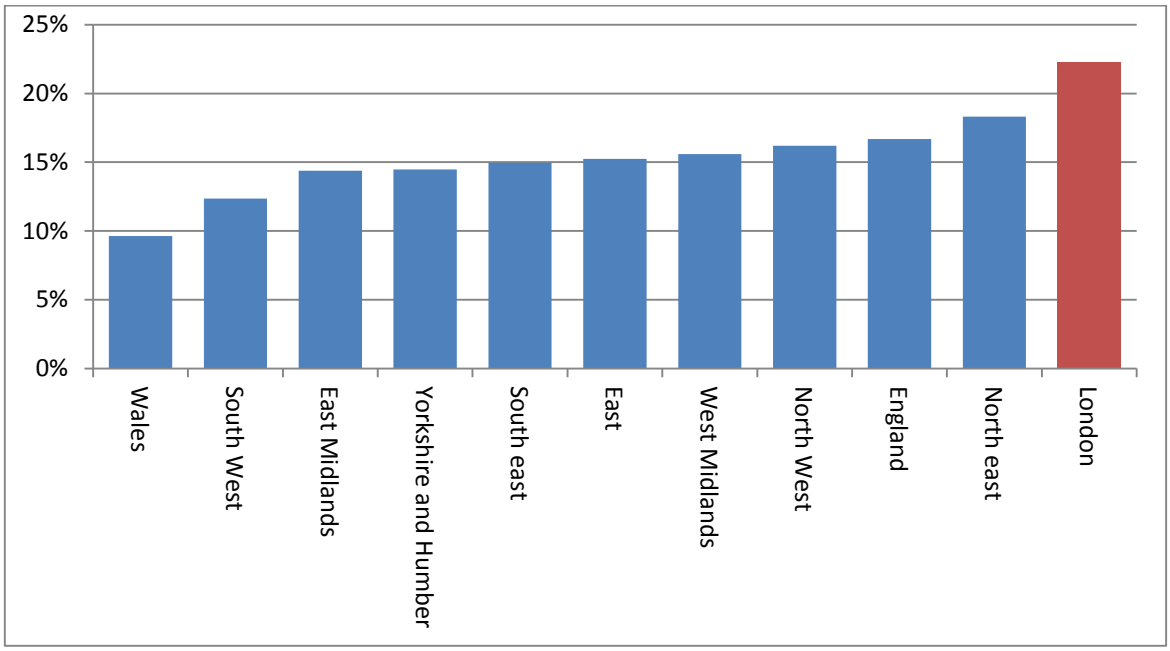
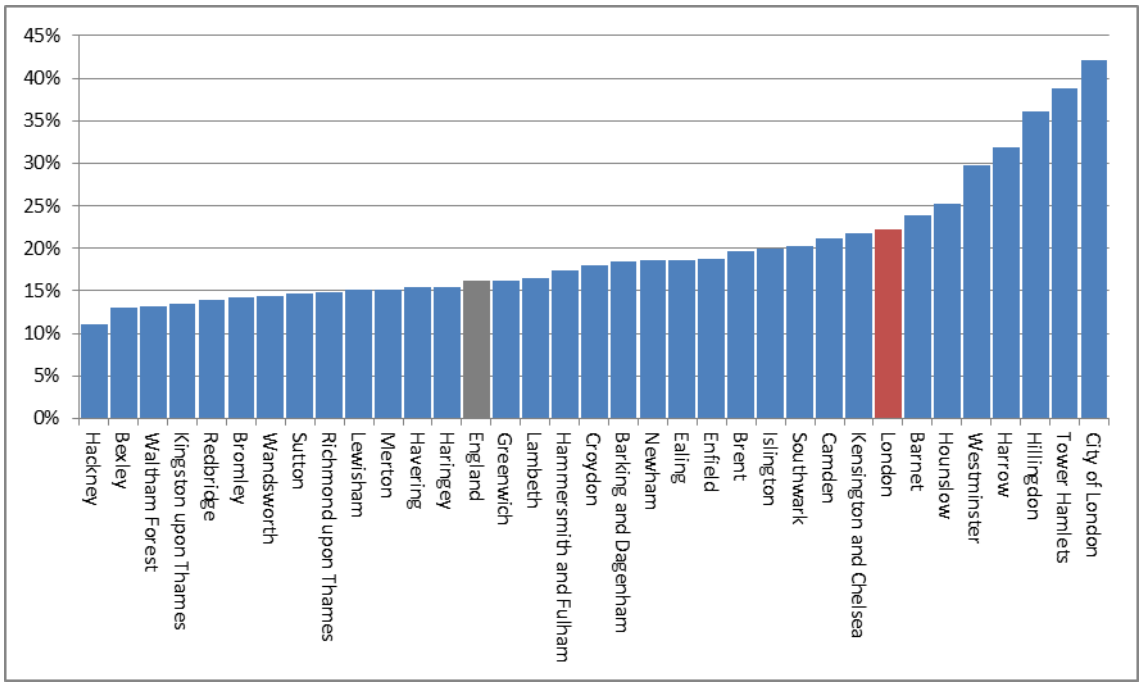


Figure A2 - Unresolved Appeals as % of Total Hereditaments on the 2010 Local Rating List (London Billing Authorities) as at 31 March 2016 – London Boroughs & England



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 uprated 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"[9]. 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.

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

[9] Raising the Capital (2013): https://www.london.gov.uk/sites/default/files/gla_migrate_files_destination/Raising%20the%20capital_0.pdf

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?

231. 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 it 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?

232. 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 2 - Fair Funding Review: Call for Evidence on Needs and Redistribution

Consultation Response

Q1 What is your view on the balance between simple and complex funding formulae?

A1 All funding formulae will have in-built inequalities, however complex and/or sophisticated. With increasingly complex formulae, the full impact of any specific changes gets difficult or impossible to understand and, therefore, there is little to be gained, either in accuracy or transparency in complex formulae. Any formulae developed should therefore be clear and transparent and also take in to account the different needs with fairness. As well as being commensurate with the overall objectives of the distribution mechanism, and the needs of the particular service(s) in question.

Q2 Are there particular services for which a more detailed formula approach is needed and – if so – what are these services?

A2 The funding formula for all services should be based on the principles set out in response to Question 1.

Q3 Should expenditure based regression continue to be used to assess councils'' funding needs?

A3 In part, but this technique does "reward" councils that have either overspent or have significant additional funding in the first place. Expenditure-based regression should therefore be used in conjunction with other techniques to determine an overall assessment of need. This should include non-financial data (eg number of older people in the population), and relative funding per head. All, the outputs from analytical techniques should consider the position after the effects of grant damping (which is now coded into funding baselines), so that irrespective of the calculations, the impact on local people should be understood. For example, in Croydon the public health funding per head of population is £58. In Camden, it is £118, and this inequity has been driven by

the use of expenditure-based allocations when public health budgets were originally transferred to local government.

Q4 What other measures besides councils' spending on services should we consider as a measure of their need to spend?

A4 Non-financial data such as population data, generated by the census and updated in the years in between is needed too, as explained in A3.

Q5 What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

A5 No comments to add – the statistical techniques should be fit for the purposes intended, rather than the end in itself.

Q6 What other considerations should we keep in mind when measuring the relative need of authorities?

A6 The "natural" advantages of some authorities over others should also be considered. For example, although some parts of Inner and Central London do have areas of significant deprivation and therefore need, they also have the greatest opportunity to raise funding to deal with these problems (eg through business rates, which is subject to a separate parallel consultation and property transactions). For example in Croydon we have high levels of UASC due to a major immigration office being based within the borough. This has a significant impact on our children's budgets as Home Office grant is not sufficient to cover all associated costs.

The funding formula should build this into its core mechanisms, so that the current mechanism is not replicated. If this would create an unreasonably rapid reduction in funding for some councils, there should be a transition phase, funded by time limited grants, so smooth the impact.

Q7 What is your view on how we should take into account the growth in local taxes since 2013-14?

A7 The growth in local taxes should be factored into the distribution mechanism, because those councils that have benefitted from increases in the tax base have a lower requirement for central government funding, all other things being equal. This must be balanced though with the non-financial data, which will help to show underlying need, rather than just expenditure (ie to move away from the problems with just using regression-based analysis).

Q8 Should we allow significant step-changes in local authorities' funding follow the new needs assessment?

A8 If significant step changes in funding are allowed, they should consider different options for managing the impact of this. This could include time limiting (eg like the New Homes Bonus), or unwinding the impact over a period of time. If funding changes are to be built into the underlying baseline, there needs to be some mechanism to reduce the impact, and redistribute large increases, otherwise the gap between well-funded and poorly funded authorities is likely to widen, which will, in the London-specific context, undermine the "one city" approach that London Council and the GLA are lobbying for.

Q9 If not, what are your views on how we should transition to a new distribution of funding?

A9 Time limited grants would enable a smooth transition to any new funding arrangements, and prevent the current problems created by grant damping being built into baselines going forward. The original idea of grant damping – to help cushion the impact of large year on year changes in assessed funding need – was good, but it has not been properly implemented and, therefore, should not be repeated with the new mechanism. Any transition to a new mechanism would therefore need to include the full unwinding of grant damping, as many of the Local London boroughs suffer particularly badly from grant damping at present. Consequently, there is not an equity of funding at present, based on assessed need, and this needs to be rectified in order to underpinning credibly and effectively the other changes proposed in this and the BRR consultation paper.

Q10 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?

A10 The CA level is likely to be too big to provide the fidelity needed to reflect local need. The diversity in Croydon, for example, means that the Borough contains some areas of high affluence. Alongside some areas with high levels of depravation which are leading to a high demand for temporary accommodation and social care services. The assessment of need should therefore continue to be based on existing boundaries, although the purposes to which the assessment is put (eg to determine funding for CAs) may of course be different in future. Therefore, consideration of individual borough needs within an overall funding mechanism for London would enable these stark differences to be properly reflect in funding allocation, whilst helping to enhance the integrity of the overall London funding system.

Q11 How should we arrive at the composition of these areas if we were to introduce such a system?

A11 The basic geographic building blocks of the system shouldn't not change, as indicated in A10.

Q12 What other considerations would we need to keep in mind if we were to introduce such a system?

A12 There is considerable risk in changing:

- The distribution mechanism
- The rates multiplier and
- The geographic area

all at the same time and, even though this may be the end goal, implementation should be done on a phased basis, so that key staff involved at all levels understand the changes and can manage them.

Q13 What behaviours should the reformed local government finance system incentivise?

A13 The greater the stability of local government funding, the more local authorities and the GLA can plan with certainty. Any new system should therefore help to provide that certainty, whilst at the same time reflecting the ever changing demands and needs in each borough. Certainty will in part come from limiting short term changes in funding, but, also, through greater transparency and ease of understanding, so that local authorities and local people can understand the funding they receive. At present, the system is so complex, with a wide range of adjustments and counter-adjustments, that it is virtually impenetrable to most people. And by increasing transparency and simplicity, accountability will be improved as well, because changes to the system and the decisions that arise will be easier to understand and more readily scrutinised.

Similarly, investment in the long term prosperity of the area should be recognised, so that Councils use all their resources to improve the area which they are responsible for. The mechanism should therefore incentive economic growth.

Q14 How can we build these incentives into the assessment of councils' funding needs?

A14 Addressed in response to question 13.