Dear Clive

Thank you for inviting me to give evidence to your Committee’ inquiry into the devolution of business rates at its session on 11 April. I am writing to you to provide responses to the questions raised in your subsequent letter dated 14 April.

Your letter invited responses on five specific questions:

• The share of business rates that London will retain and from when
• When the 100% retention pilot will begin
• Distribution of growth across the participating authorities
• Equalisation arrangements across the participating authorities and
• The additional income forecast to be generated from the pilot

The GLA’s response to these questions is set out below. It is worth noting however that the 100 per cent retention pilot for London remains at the developmental stage and detailed terms remain to be negotiated with government.

Before responding to the questions it is perhaps worth clarifying what was announced in Chancellor’s March budget statement:

• TfL’s capital investment grant - £960 million - will be transferred into the rates retention system from next April. This grant will therefore cease to be paid by the Department for Transport and will be funded instead by an increase in the percentage share of business rates income allocated to the GLA

and;

• The government will explore with London (along with Greater Manchester and Liverpool) options for moving to 100% business rates retention ahead of the full roll-out of the business rates reforms across England.
The share of business rates that London will retain and from when?

The transfer of TfL’s capital investment grant – currently profiled at £960 million for 2017-18 – would on a like for like basis require an increase in the share of business rates received by the GLA from 20 per cent to at least 34 per cent. This would be offset by a reduction in the current 50 per cent central share payment made by the 33 London billing authorities (the 32 London Borough and the Corporation of London) to the government. The 30 per cent share of business rates income retained by billing authorities would remain unchanged in 2017-18 under this initial reform.

In practice the precise percentage share for the GLA could be different (e.g. a rounded percentage share of 35% or 40%) with any variance being accounted for through an adjustment to its tariff payment to Government. The GLA’s tariff payment is £357 million in 2016-17 but has the potential to more than double in 2017-18 due to the effect of this capital grant transfer and the 2017 revaluation.

It is also unclear whether the GLA will still be required to pay a levy on business rates growth (currently fixed at a rate of 27 per cent) from 2017-18. This is one of the reforms due to be introduced for tariff authorities as part of the move to 100% retention.

In relation to the broader proposal for London to pilot 100% retention, the GLA has been working closely with London Councils to develop proposals for the future collection and distribution of business rates within London. These proposals could include the full retention of all of London’s business rates within the capital – as opposed to the current position where just over 10% of London’s ‘retained’ rates flow to the rest of the country through London’s aggregate tariff of £342 million (2015-16). Full retention would then have to be matched by the transfer of additional responsibilities in order to maintain fiscal neutrality as the Chancellor has indicated.

The proposals are still in the formative stage and will be developed in discussion with government, the incoming Mayor of London, the Greater London Authority and the whole of London local government. It is also recognized that any 100 per cent retention scheme in the capital would have to have regard to the implications for local authorities in the rest of England.

When the 100% retention pilot will begin?

As set out above the TfL capital grant transfer is scheduled to take place in April 2017. It is not yet clear, however, when any broader 100% pilot incorporating London boroughs and the Corporation of London as well as the GLA will commence. Realistically, 2018-19 would be the earliest possible date subject to the agreement of all parties being secured and the need for any primary legislation to have been enacted. It is possible however that the process could be delayed depending on how swiftly the government concludes its planned review of needs and distribution as this could require an alteration of the baseline funding levels for London boroughs within the system compared to those set out in the four year settlement announced in December.

Distribution of growth across the participating authorities

We would assume that the initial split of rates retained by the GLA and the boroughs will be determined by the balance of functions and responsibilities to be funded under the new system. Both that balance and the distribution of subsequent growth would be matters to be decided as London’s devolution proposals are developed. The Mayor and London Councils would under any such system have to play a key role in ensuring that resources were distributed fairly across the
capital in recognition of the fact that there is likely to be a dislocation between the location of any business rates growth and future funding and infrastructure requirements.

**Equalisation arrangements across the participating authorities**

The GLA considers the existing tariff and top-up system already provides a significant degree of protection for poorer authorities within the existing rates retention system. It is anticipated that the equalisation arrangements involving the GLA and the 33 local authorities in London would function in a similar way to the current national system with tariffs and top-ups being used to adjust for the difference between the actual level of business rates collected in each area and local funding needs. This protection could also be supplemented by the safety net mechanism which ensures under the current arrangements that no authority will bear more than a 7.5 per cent shortfall against their baseline funding levels in any financial year.

In London eight boroughs are currently tariff authorities in addition to the GLA – Camden, City of London, Hillingdon, Kensington and Chelsea, Hammersmith and Fulham, Kingston, Richmond and Westminster. Their collective tariff payments are £842 million – albeit Westminster and the City account for £462 million and £208 million (i.e. 80%) of this respectively. The remaining 25 are top up authorities who received between £0.5 million (Hounslow) up to as much as £71 million each for Lewisham and Newham and £75 million for Hackney in 2015-16.

Overall London boroughs receive net top up payments of around £14 million in 2015-16 which when combined with the GLA’s £356 million tariff payment equated to a net business rates transfer from the capital of around £342 million.

As an illustration of how the equalization arrangements operate at present it is perhaps worth comparing the position of two adjacent local authorities – the City of London and the London Borough of Hackney. In 2015-16 the City of London is expected to have collected £745 million in rates income but only actually retained around £19 million (3%) of this to fund local services net of its £208 million tariff payment and the sums payable to GLA (20% of its rates income) and CLG (50%) via the central share. Hackney by contrast was forecast to collect only £90 million in business rates income in total but actually received over £102 million (i.e. 12% more than its total rates income) for local services after taking into account its £75 million top up from the government. Hackney ultimately therefore receives nearly six times as much money as the City for local services under the 50% retention system despite collecting less than one eighth of the City’s rates income.

Irrespective of the impact of the move to 100% retention the profile of tariff and top up payments is likely to change significantly following the 2017 revaluation it is anticipated that London’s business rates tax take could increase by as much £750 million in 2017-18 compared to 2016-17.

Whether tariffs and top ups would be paid to government directly or paid across London (to be net neutral) in future will depend to some extent on whether London will continue to pay an overall tariff to government or whether 100% of the rates raised on the capital will be retained (with a requisite transfer of additional responsibilities and resources). The GLA is of course also conscious of the need to ensure 100% retention in London is delivered without having a detrimental effect on funding for local services in the rest of England.
**Additional income forecast to be generated from the pilot**

Given that the government has yet to clarify many aspects of the future scheme and London is still developing its proposals, it is too early to forecast with any confidence the income which will be generated by the pilot. One significant benefit of the proposed reforms however is the planned removal of the levy on growth which currently means that the eight tariff authorities and the GLA are required to pay up to 50 per cent of any business rates growth on their share over to the Government.

It is the collective opinion of London Government that a system collectively designed, owned and administered locally would provide the most sustainable system and give the best opportunity to help manage and promote sustainable economic growth in London over the longer term.

**The scope for transferring responsibilities to local government**

In his evidence to the Committee the Director of Finance at London Councils – Guy Ware – suggested that on their calculations there may be insufficient capacity within the business rates quantum to devolve additional funding and/or responsibilities beyond those which have already been announced by the Government in addition to any residual revenue support grant and New Homes Bonus payments.

The largest single function currently proposed for devolution into the business rates system is the award of Attendance Allowance to pensioners who have significant disabilities or are terminally ill (approximately £5 billion nationally and around £500 million in London).

In the GLA’s view it is desirable that funding streams being rolled into 100 per cent retention should play a role in promoting and delivering economic growth, supporting infrastructure delivery and creating employment. The related investment should, in turn, lead to additional growth and an increase in business rate income. The GLA considers that if Attendance Allowance is devolved this will inevitably limit the flexibility to transfer further responsibilities to local government through the business rates system which have a clearer linkage to delivering economic growth.

If you or your colleagues require any further information please contact Martin Mitchell (GLA Group Finance Manager) at martin.mitchell@london.gov.uk.

Yours sincerely

Sir Edward Lister
Chief of Staff and Deputy Mayor for Policy and Planning