

Notice of KEY Executive Decision

Subject Heading:	The London Business Rates Pool Pilot
Cabinet Member:	Councillor Roger Ramsey
SLT Lead:	Debbie Middleton Chief Finance Officer
Report Author and contact details:	Toyin Bamidele Financial Strategy Manager 01708 431979 <u>Toyin.bamidele@onesource.co.uk</u>
Policy context:	The Council is required to approve and accept the designation by the Secretary of State as an authority within the London Business Rates Pilot Pool.
Financial summary:	This report provides an update and an overview of the proposed Business Rates Pilot Pool with effect from 2018/19. The decision takes the council into the London Business Rates Pool Pilot
Reason decision is Key	(a) Expenditure or saving (including anticipated income) of £500,000 or more (b) In excess of 10% of the gross controllable composite budget at Head of Service/ Assistant Chief Executive level (subject to a minimum value of £250,000) (c) Significant effect on two or more Wards
Date notice given of intended decision:	11 December 2017

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Relevant OSC:	O & S Board
Is it an urgent decision?	No
Is this decision exempt from being called-in?	Yes

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

Part A – Report seeking decision

DETAIL OF THE DECISION REQUESTED AND RECOMMENDED ACTION

That the Leader, in the exercise of his executive functions agrees on behalf of the Council to :

- 1 **Approve** and accept the designation by the Secretary of State as an authority within the London Business Rates Pilot Pool pursuant to 34(7)(1) of Schedule 7B Local Government Finance Act 1988;
- 2 **Participate** in the London Business Rates Pilot Pool with effect from 1 April 2018 to 31 March 2019;
- 3 **Delegate** the authority's administrative functions as a billing authority pursuant to the Non-Domestic Rating (Rates Retention) Regulations 2013 to the City of London Corporation ("COLC") acting as the Lead Authority;
- 4 **Authorise** the Lead Authority to sub-contract certain ancillary administrative functions within the Pool to the GLA as it considers expedient;
- 5 **Delegate** authority to the Chief Finance Officer after consultation with the Leader, to agree the operational details of the pooling arrangements with the participating authorities;
- 6 **Authorise** the Chief Finance Officer, after consultation with the Director of Legal and Governance to make any amendments to the Memorandum of Understanding, attached at Appendix 1 to the report, as may be required by the Secretary of State, and to enter into the final Memorandum of Understanding on behalf of the authority;
- 7 **Authorise** the Leader to represent the Council in relation to consultations regarding the London Business Rates Pilot Pool consultative and decisions relating to the Strategic Investment Pot as may be undertaken by the Lead Authority pursuant to the Memorandum of Understanding and that he will respond to the consultations;

AUTHORITY UNDER WHICH DECISION IS MADE

This Council operates the 'strong leader' executive model as set out in the Local Government Act 2000 (as amended) and all executive powers are vested in the Leader as a matter of law. In accordance with the procedures set out in the council's constitution at Part 3, the Leader may exercise any executive function upon giving notice of intention to do so to the Proper Officer.

STATEMENT OF THE REASONS FOR THE DECISION

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Authorities joining the London Business Rates Pool Pilot have to make the relevant local decisions needed to enable them to join within 28 days of the local government finance settlement. The decisions need to be taken to enable Havering to participate in the pool under the council's constitutional arrangements. The decision could not wait for Cabinet as this would fall outside the required period. Consent has been given by the Chair of Overview and Scrutiny to waive the Forward Plan and Call in Procedures in view of the urgency of this matter and the implications for the council and its residents were the decision not taken within the 28 day period provided.

OTHER OPTIONS CONSIDERED AND REJECTED

The options are to continue to join the pool or to opt out. If Havering choose to opt out, then the whole London pool pilot would collapse and could not happen as the decisions taken have to be unanimous. For Havering that would mean ruling out the establishment of any pooling arrangement and foregoing the potential financial benefit that could accrue and cause reputational damage.

PRE-DECISION CONSULTATION

NAME AND JOB TITLE OF STAFF MEMBER ADVISING THE DECISION-MAKER

Name: Debbie Middleton

Designation: s151 Officer

Signature:



Date: 15-01-2018

Part B - Assessment of implications and risks

LEGAL IMPLICATIONS AND RISKS

The Secretary of State has the power to designate two or more "relevant authorities" as a pool of authorities for the purposes of the provisions of Schedule 7B of the Local Government Finance Act 1988.

Local authorities have the power to enter into a Memorandum of Understanding to record the governing arrangements between them including under section 111 of the Local Government Act (LGA) 1972.

FINANCIAL IMPLICATIONS AND RISKS

The provisional Local Government Financial Settlement (LGFS) confirmed that the government intends to move to a system of 75% business rates retention across local government in 2020/21. This is expected to include rolling in RSG, Rural Services Grant, GLA Transport Grant and Public Health Grant.

Furthermore, the Secretary of State confirmed the 5 existing 2017/18 pilots would continue in 2018/19 and confirmed 11 new pilots for 2018/19, including the London pilot pool. All pilots will trial the principles of 100% retention and will see RSG (and rural services grants in two tier areas) "swapped" for higher retained business rates. The new pilot areas are: London; Berkshire; Derbyshire; Devon; Gloucestershire; Kent & Medway; Leeds; Lincolnshire; Solent; Suffolk; and Surrey.

The LGFS settlement consultation commits the Government to continue to pilot future reform of the system in 2019/20, with further details to be provided in 2018. It is therefore uncertain if any of the 100% pilot pools will extend beyond 2018/19.

The 100% London Business Rates Retention Scheme across London Government will require two separate but aligned agreements:

- a) the agreement to accept the designation order by government to form the pool; and
- b) agreement between the boroughs, the City of London and the GLA by which London Government collectively decides how to operate the pool and distribute the financial benefits – this is the pooling Memorandum of Understanding (MOU).

Authorities within the London Pilot pool received "Designation Order" letters from DCLG in December 2017 with the deadline for any authority wishing not to accept the designation being 28 days from the date of the settlement. Therefore any decision not to enter the pooling arrangement needs to be made by 16 January.

London Business Rate Pool Pilot

The overview of the proposed pilot for London was reported to Cabinet in October and December as part of the MTFs report. On 10 October 2017, the Leaders' Committee for London agreed in principle to go forward with establishing a pan-London Business Rates Pool to pilot 100% retention of business rates growth in 2018-19 for a period of up to two years.

The Committee considered a number of options for distribution and agreed to delegate the task of finalising a proposition (including the basis for redistribution of any net financial benefit of business rate growth) to the Chief Executive in consultation with London Councils' elected officers, for negotiation and agreement with the Mayor and with Government.

Pool Principles

Final agreements to enter a pilot pool, and the way in which it would operate, will be subject to formal decisions by each individual authority. The Pool principles as set out in the draft prospectus as reported to Leaders' Committee in October are summarised below;

- I. The pool would be voluntary, but include all London authorities;
 - II. London would retain a greater share of business rates in exchange for Revenue Support Grant;
 - III. a "no detriment guarantee" would ensure that the pool could not be worse off than the participating authorities would have been collectively if they had not entered the pilot pool;
 - IV. No "new burdens" would be transferred to London and participation in the pilot would not affect the development or implementation of the Fair Funding review (currently anticipated in 2020/21).
 - V. Public Health and Improved Better Care Fund grants would not be rolled in initially, but there are plans to include them if all parties were to agree to continue a pilot into 2019/20.
 - VI. The pool in 2018/19 would not bind boroughs or the Mayor indefinitely – the founding agreement includes notice provisions for authorities to withdraw provided notice is given by 31 August each year; and
 - VII. All member councils will receive some share of any net benefits arising from the pilot pool – recognising that growing London's economy is a collective endeavour in which all boroughs make some contribution to the success of the whole.
- a) Modelling of the pooling scenarios – the Elected Officers of London Leaders agreed a proposal based upon the distribution of business rates growth using four drivers for distribution, weighted as follows:
- **Incentivising growth** (by allowing those boroughs where growth occurs to keep some proportion of the additional resources retained as a result of the pool) (15%)

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- **Recognising the contribution of all boroughs** through a per capita population allocation (35%)
 - **recognising need** through the needs assessment formula (35%) and
 - **Facilitating collective investment** through an investment pot designed to promote economic growth and lever additional investment funding from other sources (15%).
- b) Governance of the strategic investment pot: The pot would be dedicated to projects that contribute to the sustainable growth of London's economy, and which attract match funding from other private or public sources. Following legal advice, decisions would be taken formally by a lead authority in consultation with all member authorities. These decisions are expected to be taken bi-annually, and would be taken by the City of London Council, as Lead Authority, in consultation with all the members of the pool

The Minister for Local Government has indicated that the strategic investment pot should constitute a substantial proportion (c50%) of the growth distribution. This proposal is predicated on the assumptions that the Government will view the share that goes to the GLA as contributing towards the investment pot.

Table 1 below, summarises the estimate range of the potential growth pot, the potential share for the London Borough of Havering, together with the overall allocation of to London Boroughs, the GLA and the Investment Pot. The lower values assumes growth in 2018/19 followed a trajectory based upon actual aggregate growth in London between 2013/14 and 2017/18 at 2.2%, the size of the growth pot may be circa £88m. The upper values represent the expected growth across London from a survey undertaken by London Council in May 2017 which projects a growth pot of circa £240m.

<u>Table 1 - Assumptions used</u>		Range of forecast	
Estimated LB Havering Growth		3.40%	6.80%
Expected London Growth		2.20%	6.10%
Assumed growth distribution pot		£88m	£240m
Distribution Pot	Distribution Ratio	LBH Share	LBH Share
	%	£m	£m
Incentives	15	0.10	0.19
SFA	35	0.30	0.74
Population	35	0.60	1.52
Investments	15		
Net benefit to LB Havering		0.90	2.46
From London Council modelling		£m	£m
Minimum borough gain (£m)		0.60	1.70
Maximum borough gain (£m)		2.60	8.20

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Spread over boroughs (£m)		2.00	6.50
London Boroughs – Total		47.50	130.30
GLA		26.90	73.90
London subtotal		74.40	204.30
Investment pot		13.12	36.00
London Total incl. Investment Pot		87.50	240.30

Havering's share of growth in 2018/19 is projected to range between £0.9m and £2.5m based upon these assumed levels of growth, but may be more or less. The administrators of the pool will use annual Business Rate Returns (the NNDR 1 and NNDR3 returns) to establish the schedule of payments to be made and the actual reconciliation of the amounts due. The final reconciliation and confirmation of the distribution of growth due to all Boroughs will be after the accounts and returns for the financial year have been audited i.e. October 2019 in relation to 2018/19. The City of London Council is to be the Lead Authority for the pool, and will carry out the administration of the pool and the strategic investment pot, in consultation with all the member authorities. This requires the delegation of the council's administrative functions as a billing authority as they relate to the operation of the pool.

For Boroughs in an existing pool, DCLG have indicated that the basis of comparison would include the income due from that pool. London authorities in an existing pool include Barking & Dagenham, Havering and Croydon. London Borough of Havering is currently in a pool with Thurrock unitary, Basildon district, and the London Borough of Barking and Dagenham since 2014.

Entrance into the London Pool pilot means that the existing pool will be wound up as the Council cannot belong to both pools. The expected benefit from the existing pool for 2016/17 and 2017/18, currently estimated at £0.500m for each year, will be brought into the Council's 18/19 budget on a one off basis. Under the "no worse off" agreement enshrined in the London Pool pilot, it is assumed that this benefit will continue into the first year of the pilot, so this assumption has been continued with £0.500m being included on a one off basis for the financial year 2018/19 pool as a prudent estimate of income available from the pooling pilot. This sum will be subject to review following the final reconciliation for 2018/19 in October 2019 as referenced above. Update on the process will be included in the MTFs cabinet reports in February 2018.

Financial Risk

It is essential that the Council's financial strategy takes due account of Government plans and any other material factors where these are likely to have an impact on the Council's financial position. The level of growth to be distributed from the pool will be dependent upon actual levels of growth across London, and this will be shared out across the member councils after the end of the relevant financial year.

HUMAN RESOURCES IMPLICATIONS AND RISKS (AND ACCOMMODATION IMPLICATIONS WHERE RELEVANT)

None

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EQUALITIES AND SOCIAL INCLUSION IMPLICATIONS AND RISKS

None

BACKGROUND PAPERS

~~Update on the Council's MTFS and Budget for 2018/19, Cabinet 13 December 2017~~

~~The Council's Medium Term Financial Strategy and 17/18 Budget Update, Cabinet 11 October 2017~~

NONE

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Part C – Record of decision

I have made this executive decision in accordance with authority delegated to me by the Leader of the Council and in compliance with the requirements of the Constitution.

Decision

Proposal agreed

Delete as applicable

Proposal NOT agreed because

Details of decision maker

Signed



Name:

ROGER RAMSEY

Cabinet Portfolio held:

CMT Member title:

LEADER

Head of Service title:

Other manager title:

Date:

15.1.2018.

Lodging this notice

The signed decision notice must be delivered to the proper officer, Debra Marlow, Principal Committee Officer in Democratic Services, in the Town Hall.

For use by Committee Administration

This notice was lodged with me on

18/1/2018

Signed

