
Memorandum of Understanding on the London 75% business rates retention pilot 2019-20



MAYOR OF LONDON

Stuart Hoggan

Stuart Hoggan, Deputy Director, Local Government Finance - Ministry of Housing, Communities and Local Government

John O'Brien

John O'Brien, Chief Executive - London Councils

Martin Clarke

Martin Clarke, Executive Director, Resources - Greater London Authority

Memorandum of Understanding on the 75% Business Rates Retention Pilot 2019-20 for London

Introduction

1. In the Spring Budget 2017, the London Devolution Memorandum of Understanding¹ included a commitment to exploring options for granting London government greater powers and flexibilities over the administration of business rates, including supporting the voluntary pooling of business rates within London, subject to appropriate governance structures being agreed.
2. Following the establishment of a pan London business rates pool to pilot the previously proposed principles of 100% Business Rates Retention in 2018-19, this Memorandum of Understanding confirms the commitment by the Government, the Mayor of London and London local government to pilot the principles of 75% business rates retention in 2019-20 through the continuation of the pan-London business rates pool. It sets out the basis on which the local authorities listed at **Annex A** will pilot 75% business rates retention.
3. This Memorandum of Understanding (MoU) comes into effect from 1 April 2019 and expires on 31 March 2020.
4. This MoU is not intended to be legally binding, and no legal obligations or legal rights shall arise between the parties from this MoU.

Pilot principles

5. The pilot pool will be voluntary, but will include all 32 London boroughs, the City of London Corporation and the Greater London Authority [“the London authorities”].
6. From 1 April 2019 the London authorities will retain 75% of their non-domestic rating income². They will also receive section 31 grants in respect of Government changes to the business rates system which reduce the level of business rates income. Section 31 grant will amount to 75% of the value of the lost income. Tariffs and top-ups will be adjusted to ensure cost neutrality.
7. In moving to 75% business rates retention, the Ministry of Housing, Communities and Local Government will continue not to pay Revenue Support Grant to the

¹ <https://www.gov.uk/government/publications/memorandum-of-understanding-on-further-devolution-to-london>

² As defined in the Non-Domestic Rating (Rates Retention) Regulations 2013 (SI2013/452) (as amended).

London authorities in 2019/20. The value of these grants in 2019-20 is set out in **Annex B**.

8. The London authorities will not be subject to more onerous rules or constraints under the 75% rates retention pilot, than they would have been if they had remained subject to the 67% scheme in place in 2017-18, reflecting the incremental impact of the Greater London Authority's partial pilot as a result of the 'rolling in' of its Revenue Support Grant and the Transport for London investment grant. No 'new burdens' will be transferred to London and participation in the pilot will not affect the development or implementation of the Fair Funding Review.
9. Levy and safety net payments due from/to the London business rates pool will be calculated, in accordance with the Non-Domestic Rating (Levy and Safety Net) Regulations 2013 (SI 2013/737) (as amended), as if the London authorities were not 75% pilots, but instead were operating under the 50% rates retention scheme adjusted for the GLA's partial pilot for 2017-18, which is continuing as part of the pool and increased the locally retained share to 67%.
10. However, notwithstanding the calculation of levy and safety net payments under the Regulations, the Government will calculate levy and safety net payments due from/to the London business rates pool on the basis that it has a 'zero' levy rate and 'safety net threshold' of 95%, and that the London authorities will be retaining 75% of London's business rates income. The difference between any sums due under this calculation and the levy/safety net due under SI 2013/737 will be paid to the London business rates pool via a section 31 grant.
11. The piloted approach will have no impact on Enterprise Zones and 'designated areas' where the designations made by the Secretary of State come into force on or before 1 April 2019, along with other special arrangements, such as the statutory provision to reflect the unique circumstances of the City of London Corporation.

Distribution of any financial benefit

12. The 34 London authorities will prepare a framework agreement for the operation of a pilot pool in which, assuming the pool has 'growth' in comparison to its assessed business rates baseline:
 - each authority will receive at least as much from the pool as they would have individually under the existing 67% retention scheme;
 - 15% of any net financial benefit will continue to be set aside as a 'Strategic Investment Pot' (see paragraphs 13-16); and

- the resources not top-sliced for the investment pot will be shared between the GLA and the 33 billing authorities (the 32 boroughs and the City of London Corporation) in the ratio 36:64, in accordance with the principle previously agreed by London Councils and the GLA in the joint business rate devolution proposals to Government in September 2016.

Strategic investment

13. The Mayor of London commits that the GLA's share of any additional net financial benefit from the pilot will be spent on strategic investment projects. Decisions on the allocation of the GLA's share will be made by the Mayor of London.
14. For this purpose, and for the separate joint Strategic Investment Pot, 'strategic investment' will be defined as projects that will contribute to the sustainable growth of London's economy or support the delivery of new infrastructure, housing or employment, which lead directly to or are expected to facilitate an increase in London's overall business rates income.
15. The joint Strategic Investment Pot will be spent on projects that meet each of the following requirements:
- contribute to the sustainable growth of London's economy and an increase in business rates income either directly or as a result of the wider economic benefits anticipated;
 - leverage additional investment funding from other private or public sources; and
 - have broad support across London government in accordance with the proposed governance process (see paragraph 17-18).
16. It is anticipated that approximately 50% of net additional benefits arising from the pilot pool will continue to be spent on strategic investment projects.

Governance

17. Decisions regarding the Strategic Investment Pot will be taken formally by the City of London Corporation – as the lead authority – in consultation with all member authorities, reflecting voting principles designed to protect Mayoral, borough and sub-regional interests, agreed under the 2018-19 100% pilot and previously endorsed by Leaders and the Mayor in the London Finance Commission (both 2013 and 2017), and set out in London Government's detailed proposition on 100% business rates in September 2016. These are that:

- both the Mayor and a clear majority of the boroughs would have to agree;
- a majority would be defined as two-thirds of the 33 billing authorities (the 32 boroughs and the City of London Corporation), subject to the caveat that where all boroughs in a given sub-region disagreed, the decision would not be approved;
- if no decisions on allocation can be reached, the available resources would be rolled forward within the pot for future consideration at the next decision-making round.

18. It is envisaged that decisions will be taken annually. Each authority will be required to take the relevant decisions through its own constitutional decision-making arrangements.

Evaluation

19. The Government will undertake a qualitative evaluation on the progress of the pilot with focus on the governance mechanism and decision-making process, and the scale of resources dedicated to strategic investment.

Next steps

20. As specified in paragraph 3, the pilot will operate for one year. The Government is committed to giving local government greater control over the revenues they raise, and plans to implement 75% business rates retention across England from 2020-21 onwards. Piloting at 75% in a key area like London will provide information about the immediate future. The Government will work with London authorities to explore legislative changes:

- a. needed to develop a Joint Committee model for future governance of a London pool; and
- b. regarding the re-listing of central list assessments located wholly or primarily in the Greater London area, such as London Underground and Docklands Light Railway, in an 'area list.'

21. Neither are achievable without primary or secondary legislation and so if this were to be implemented it would be necessary for there to be a commitment to a longer-term London business rates pool.

22. The Government will reflect the pilot pool arrangements in the Provisional 2019-20 Local Government Finance Settlement in December 2018. If any authority decides to opt out within the following 28 days – that is, by 28 days after the Provisional Local Government Finance Settlement – the pool would not proceed.

23. London Government will update the existing pooling agreement between the 34 London authorities by which London Government collectively decides how to operate the pool and distribute the financial benefits. Each authority will be required to take the relevant decisions through its own constitutional decision-making arrangements.

Annex A

Authorities in the London Pilot

Barking & Dagenham
Barnet
Bexley
Brent
Bromley
Camden
City of London
Croydon
Ealing
Enfield
Greenwich
Hackney
Hammersmith & Fulham
Haringey
Harrow
Havering
Hillingdon
Hounslow
Islington
Kensington & Chelsea
Kingston upon Thames
Lambeth
Lewisham
Merton
Newham
Redbridge
Richmond upon Thames
Southwark
Sutton
Tower Hamlets
Waltham Forest
Wandsworth
Westminster
Greater London Authority

Annex B

Grants

The amount of Revenue Support Grant (RSG) to be 'rolled-in' to 75% rates retention for 2019/20 for each of the 33 billing authorities is set out below. This is in addition to the funding streams rolled in to the GLA's funding baseline in 2017-18 in respect of the Transport for London investment grant (£993 million in 2019-20) and the Greater London Authority's RSG (£127.9 million in 2019-20) under the GLA's partial pilot.

RSG	Amount (£m) for 2019/20
Barking & Dagenham	17.7
Barnet	6.2
Bexley	3.2
Brent	24.5
Bromley	0.0
Camden	22.3
City of London	6.2
Croydon	13.9
Ealing	17.2
Enfield	17.3
Greenwich	25.1
Hackney	34.8
Hammersmith & Fulham	17.1
Haringey	21.6
Harrow	1.6
Havering	1.4
Hillingdon	6.7
Hounslow	9.5
Islington	24.1
Kensington & Chelsea	9.9
Kingston upon Thames	0.0
Lambeth	31.7
Lewisham	27.5
Merton	5.1
Newham	36.2
Redbridge	10.2
Richmond upon Thames	0.0
Southwark	35.9
Sutton	6.6
Tower Hamlets	33.3
Waltham Forest	18.5
Wandsworth	23.1
Westminster	29.6