

## DCLG Consultation

### Self-sufficient local government: 100% Business Rates Retention

1. The City of London Corporation welcomes the opportunity to respond to the Department's consultation on 100% business rates retention.
2. The City Corporation's general position is represented by a joint response submitted by all of London's billing authorities under the auspices of London Councils. The Greater London Authority is also a party to that response. It calls for a broad package of business rates devolution to the capital, in some respects going beyond the reforms proposed by the Government in the consultation paper.
3. The reason for this separate response is to draw attention to the specific position of the City Corporation in the context of the reforms suggested, and some of the questions posed, in the consultation paper.

#### The City Corporation as a 'special authority'

4. A preliminary point concerns the arrangements for the City Corporation as a 'special authority'. That term is defined in section 144(6) of the Local Government Finance Act 1988 by reference to an authority's rateable value compared with its residential population. The intention is to identify areas with an exceptional disparity between their business rates tax base and their council tax base. The City is the only area which satisfies the definition. Its unique circumstances are demonstrated by the fact that 415,000 people are currently estimated to work there, while its residential population is estimated at around 7,000.
5. The two main features of treatment as a special authority are the ability to set a separate multiplier (which, when set, produces what is commonly known as the City Premium), and the allocation of a fixed annual sum commonly known as the City Offset. Both of these fall outside the system of business rates distribution.
6. The underlying rationale for these arrangements is that the costs of providing local government services to a dedicated commercial district (which cannot be properly reflected in a resident-based needs formula) should be met largely through business rates rather than the imposition of an unrealistically high council tax burden on a small number of residents. The arrangements also recognise that some the activities of the City Corporation are carried on for the benefit of London as a whole, for instance its work in support of the Crossrail scheme, its provision of cultural services such as the Barbican Centre and the Museum of London and its educational outreach programme. The ability to raise a supplemental rate also provides a cushion for council tax payers where alterations to central government grants made in the expectation that additional money will be raised locally would create a disproportionate increase in individual council tax bills owing to the small tax base.

7. During the passage of the Bill for the Local Government Finance Act 2012, the Government confirmed its commitment to maintaining the City's arrangements as a special authority after the introduction of the rates retention system: *House of Lords Official Report*, 10<sup>th</sup> October 2012, columns 1075–1077. In the absence of any contrary indication in the consultation paper, we assume that there has been no change in this policy. We draw attention to the point at this stage in case to make sure that the Department is aware of the issue when considering the design of a reformed system.

### Response to consultation questions

#### *Questions 1 and 2:*

8. The City Corporation welcomes the criteria set out in paragraph 3.7 of the consultation paper. The particular grants identified paragraph 3.11 do not, however, appear to take account of criterion 2 (supporting the drive for local growth) to the extent that the City Corporation would hope.
9. The City Corporation's view is that the additional responsibilities which would be most appropriately funded from retained business rates are those which are closely connected to business needs. London's businesses are set to bear an increasing share of the national tax burden and it is important that they see some benefit from the rates they pay. If local retention of rates income were coupled with greater local accountability for dealing with key business challenges such as employability and skills, affordable housing, and communications and transport infrastructure, it would increase confidence in the system. Such an approach would also lead to improved economic outcomes and reinforce the incentive effect of the retention system. The Square Mile's economic outcomes are important for the UK as a whole; in 2014 the City produced £48.1bn in output.
10. The City Corporation would therefore encourage the greater devolution of funding and functions in these areas, assuming that suitable revenue-streams and powers can be identified.
11. The devolution of additional responsibilities may raise questions in London about distribution between the two tiers of government. Any model should aim to harness the complementary strengths of the two tiers—the strategic capability of the Greater London Authority, and the local knowledge and experience of service provision possessed by the boroughs and the City Corporation—and detract from neither. The City Corporation recognises the possibility that some devolved services will most effectively be delivered at a level between that of the GLA and individual councils. This would require consideration of the appropriate governance structures for collaboration among the boroughs and the City Corporation. The City Corporation considers that such collaboration should be pursued on a flexible and consensual basis, recognising that different services may best be delivered through different groupings, rather than through the creation of fixed legal structures such as combined authorities, which would effectively create a 'third tier' of London government. The City Corporation sees no reason why this approach cannot

be combined with clear and robust accountability mechanisms, and is happy to contribute to discussions about how this could be achieved

*Questions 6 to 8:*

12. The City Corporation considers that resets undermine the incentive effect of the retention system, but recognises that trade-offs are required in order to make sure that needs do not become too far out of step with income-generating capacity. A system of partial resets would appear to strike the best balance between the competing objectives.

*Questions 17 and 18:*

13. The City Corporation welcomes the prospect of changes the way in which valuation appeals are treated. As well as generating volatility, as noted in the consultation paper, the current treatment of appeals undermines the incentive effect of the system by falsifying the individual income baselines. Moreover, it is inappropriate that the risk of appeals should be borne locally, when valuation is a national function over which local authorities have no control. The City Corporation, overseeing an area with a large volume and high value of appeals, has experienced the complexities in trying to predict appeal outcomes and the consequent difficulty in forecasting business rates income and making appropriate provisions. In practice the impact of appeals and timing of baseline calculations have meant that there has been no real correlation between economic growth and retained business rates.
14. The logical solution is to provide for individual top-up and tariff payments to be adjusted (retrospectively where appropriate) to 'compensate' individual authorities for the reduced income-generating capacity which results from a successful appeal. This would mean that the extraneous effects of the valuation process would no longer impinge on the incentive effect of the retention system. Funding for these adjustments would probably have to be provided through a 'top-slice' of rates income (whether national or regional) determined at the beginning of the retention period.
15. The City Corporation would also ask the Government to consider the transitional arrangements for dealing with appeals. The introduction of the retention system in 2013 left individual authorities bearing 50 per cent of the cost of refunds even where the original payment preceded the introduction of the system and thus was transmitted in its entirety to the central pool. The Government should instead put in place appropriate transitional arrangements to make sure that any liability to repay over-collected rates is borne by central and local government in the same share as the original overpayment was received.