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Rt Hon Robert Jenrick MP
Secretary of State for Housing, Communities and Local Government
Ministry of Housing, Communities and Local Government
2 Marsham Street
London SW1P 4DF

Date: 23 December 2020

Dear Secretary of State,

We write on behalf of London Government representing the 32 London boroughs, the City of London Corporation and the Greater London Authority in relation to the pan-London business rates retention pool that has been designated in the 2021-22 Provisional Local Government Finance Settlement to continue next financial year.

London Government has worked closely for a number of years to put the case to government for further business rates retention in the capital. We believe the London pool is one of the best examples of collaborative working between councils and between tiers of government in England. In reaching this point, we have expended a significant amount of effort in forging agreement not only between the 32 boroughs and the City of London Corporation that make up London Councils, but also between London Councils and the Mayor of London, the GLA and its functional bodies. For the 2018-19 and 2019-20 pilots, we worked to establish a scheme that balances a range of objectives and incentives for individual authorities, groups of councils and London overall and reflected the sort of imperatives that Ministers also pressed for. It has pointed the way to how the tiers of London government can collaborate on a range of issues in a way that the Government has long urged and continues to promote.

We recommitted to pooling in 2020-21, despite many of the broader financial benefits that came with pilot status being removed, in order to continue to pursue our longer-term goal of further fiscal devolution. We see greater business rates retention as an important step towards this goal and towards achieving the recommendations of the London Finance Commission, established by the current Prime Minister in 2013 and developed further in 2017.

The current pool has shown London Government to be more than capable of taking joint decisions around the distribution of funding and the strategic choices about the investment of resources to benefit the whole of London. The 2018-19 and 2019-20 pilots enabled over £260 million of direct strategic investment in projects that have supported economic growth in London, which leveraged far greater investment of over £500 million. Local public services have benefited from additional investment too as a result of the pilots and this year's pool – which have been much needed following the last decade of funding restraint.

Our signalling of the intention to continue to pool in principle back in October was prior the greater restrictions on London businesses via the tier system and the national lockdown in November, which have significantly worsened the outlook for business rates in London next year. It was also prior to the confirmation in the Spending Review that the retail hospitality and leisure relief scheme which is worth £3 billion for London businesses would end at the end of the current financial year, and prior to us being able to assess the Valuation Office Agency's likely response to the significant number of Material Change of Circumstance challenges to valuations across the central London office sector which have been made by ratepayers and their agents in recent months. The London office sector has a combined rateable value of around £9 billion and therefore generates nearly £4.5 billion a year in business rates revenues: almost half of the total value of London's business rates tax base. Losses could also extend to the retail, leisure and hospitality sectors from April if the current relief scheme is not extended as valuations for those sectors are linked in part to turnover levels.

While the 75% tax compensation scheme that the Government has set out will help to insulate the impact on the London pool in 2020-21, the lack of certainty around similar support for next year means the potential financial benefits of pooling business rates across all 34 authorities next year are greatly outweighed by the risks due to the ongoing impact of the pandemic on London's businesses including emerging valuation losses which may well not crystallise until the 2021-22 financial year.

We therefore write to seek your support in enabling the London business rates pool to continue in 2021-22 so that the good progress we have made is not lost, by discussing with us the potential for safeguards to limit the exposure of the pool to potential losses in 2021-22.

Local decisions on whether to continue or to pull out of the London business rates pool are required by 14th January – this formal withdrawal notification deadline being 28 days from the date of the announcement of the provisional local government finance settlement. We would welcome the opportunity to discuss with you as soon as possible any options that might provide some assurances regarding the financial risks facing the pool by 7th January 2021.

Yours sincerely,

Sadiq Khan

Georgia Gould

Sadiq Khan
Mayor of London

Cllr Georgia Gould
Chair, London Councils

Cc: Rt Hon Rishi Sunak MP, Chancellor of the Exchequer
Paul Scully, MP, Minister for London
Sir Edward Lister, 10 Downing Street