



CORPORATION
OF LONDON

83/05
PO Box 270
Guildhall
London EC2P 2EJ
Tel: 020 7332 3852 Fax: 020 7332 3334
Email mjs@corpldn.gov.uk

Michael Snyder
Chairman of the Policy and
Resources Committee

8 March 2005

Sir Michael Lyons
Lyons Inquiry into Local Government Funding
1 Horse Guards Road
London
SW1A 2HQ

Dear Sir Michael,

This letter follows on from our meeting when we discussed the local government finance regime applicable to the City of London. I thought it might be helpful if I were to set out the policy case in support of change and to put forward a workable solution. I believe that the review provides a welcome opportunity to redefine the approach to financing the City's public authority functions in a way which actually reflects their nature, as distinct from the present arrangements which attempt to apply criteria which are so clearly ill-fitting.

The Common Council as an executive of the City Corporation exercises both public and private functions, but looking at the public functions alone demonstrates how little comparison the City bears to boroughs, or local government as a whole. By way of example, the largest proportion of government grant to the Common Council is for the police, a function which is not even exercised by the boroughs or for that matter local authorities generally. The London port health authority stretches from Teddington to the Crouch and Medway and assessing its funding requirements bears no relationship to standard parameters. The Barbican Centre is part of the 'offer' to the international community on which the City depends and not simply a local resource.

'Local' services are directed not so much at the tiny residential population as at a huge centre of business, and bear no relationship to the requirements of a typical local authority area. The extent to which the City is exceptional in this respect is exemplified by the fact that the application of the Community Charge (Poll Tax) in the City through the Local Government Finance Act 1988 would have given a charge of over £2,000 per person according to DoE calculations at the time. That result was avoided by making specific statutory provision, necessary for the City (but no other area) to give a sensible level of charge. All this makes the case for assessing the City's financial needs on an on the merits basis rather than seeking to contort standard formulae.

What I am suggesting implies that the City should, in some respects, be taken outside the national systems for grant distribution. Such a suggestion is not inconsistent with government policy. The City is overwhelmingly a place for doing business rather than living and the Common Council, uniquely, has a power to levy a local premium to the non-domestic rate. The City is also unique in having a business franchise which has been reformed following consultation with the current administration with the result that the electoral franchise is now available to all businesses.

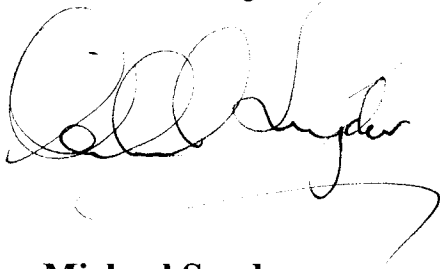
The Common Council could be likened to the board of a Business Improvement District (BID), a concept which the Government has specifically embraced through the Local Government Act 2003. The missing link is that unlike the BID board, the Common Council has no role (other than in the case of a small premium currently levied on the non-domestic rate for security purposes) in setting the level of contribution businesses should make to provide local services. This situation is all the more remarkable given business voters constitute over 70% of the Common Council's electorate and yet only a tiny proportion (about 2½%) of its expenditure comes from a locally raised business tax (ie: the rates). This is extremely unsatisfactory from the viewpoint of democratic accountability.

The combined features of a current system which plainly does not address the City's circumstances and the need to achieve greater democratic accountability make a very strong case for permitting the City to retain an appropriate proportion of the business rates raised from City businesses which reflects its local spending needs. Such a change is wholly consistent with the recent changes in the business franchise which were promoted as the result of a common desire to increase democratic accountability. I am advised that this can be achieved without primary legislation.

For some while, the City's unique position has been recognised in a number of ways, including an "allowance" of £6.5m to meet excess spending over SSA (now FSS). This was provided in the form of an Offset from contributions to the national business rates pool. However, in 2004/05, the ODPM varied this arrangement by setting the Offset at zero, following the major formula review which was introduced in 2003/04. Attached is a brief note that sets out the background to these special arrangements and puts forward a practical and equitable approach for addressing the City's unique position.

I hope that you will agree with me that these ideas are worthy of further exploration. With that in mind, please do not hesitate to contact me to discuss this further.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Michael Snyder". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Michael Snyder
Chairman, Policy & Resources Committee

Background to the City's "Special Arrangements" and proposals for the Balance of Funding

The City's "Special Arrangements" have been in place since 1990 but were modified in 1993. The key features are:

- (i) Excess spending over SSA (now FSS) and Police Grant is shared in the ratio of 99:1 between Business Ratepayers and Council Tax Payers.
- (ii) An "allowance" of £6.5m to meet this excess was provided in the form of an Offset from contributions to the national business rates pool.
- (iii) Formula share plus the Offset is defined as the Corporation's "Appropriate Spending Level" (ASL) and if the budget requirement is set at the ASL the required Business Rate is equal to the National Business Rate.
- (iv) The Corporation retains the right to set a Business Rate at a different level to the NNDR.

In 2003/04 for the first time the Corporation exercised its power to vary the NNDR. A premium of 0.3p (0.7%) for police and security purposes has been in place since then.

In 2004/05 the ODPM varied these "special arrangements" by setting the Offset at zero, following the major formula review which was introduced in 2003/04. Over the past decade the system has produced a very poor outcome for the Corporation in terms of RSG settlements.

In the context of "Balance of Funding" a possible route could be to construct a solution in which a proportion of the business rates raised in the City is seen more explicitly to support Corporation expenditure. This would imply separating the Corporation from the national systems for grant distribution which would simplify matters on both sides.

The most straightforward way to achieve this would be to set the City Offset at an equitable level to replace Formula Grant entitlement. In simple terms the approach could have these features:

- Offset fixed at £ 90m being a fair base position

- Statutory provision for annual uprating e.g. ~~direct link to annual increase in Aggregate Exchequer Grant~~
- Power to levy premium to the NNDR retained.
- Police Grant Funding retained

Needless to say, the terms of the settlement would be of critical importance in order to establish an equitable initial base position and to give statutory safeguarding for the future. In many respects, such an arrangement would replicate the conceptual thinking which lies behind the BIDs mechanism, if anything it would provide a stronger link since, within the City, the business franchise is the bedrock of the electoral system.