GREATER**LONDON**AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2618

Title: To approve funding for projects across the 32 London Boroughs and the Corporation of London to Maximise Business Rates and Council Tax Income for the 2020-21 to 2022-23 financial years

Executive Summary:

In 2020-21 the 32 London boroughs and the Corporation of London are due to collect around £4.7 billion of revenues on behalf of the GLA - £3.4 billion from non-domestic ratepayers under the business rates retention system, over £1 billion from council tax payers through the Mayor's precept and £268 million through the Crossrail Business Rate Supplement. The GLA therefore has a direct incentive to support initiatives which seek to maximise business rates and council tax income – particularly given the potential financial risks arising from the Government's 2020 spending review and planned reset of business rates growth in April 2021. These initiatives build on the success of similar projects over the last four years.

This Decision seeks approval from the Mayor for the Executive Director Resources to enter into contractual agreements with each of the 33 London billing authorities to support projects that result in increased revenues from these three sources across the next three financial years (2020-21 to 2022-23). A sum of £6 million has already been set aside in the 2020-21 GLA budget with £5 million for each of the subsequent two financial years to fund the up-front costs of these projects. The allocations reflect the GLA's expected share of project costs based on the proposals received from the 33 local authorities.

The projects will focus on identifying assessments which have been omitted from or are undervalued in local valuation lists, pursuing the collection of outstanding arrears in an ethical manner, tackling council tax and business rates avoidance schemes and enhancing property inspection functions more generally. It is expected that the projects funded will be self-financing with the costs being exceeded by the additional revenues generated.

Decision:

That the Mayor:

- Agrees that up to £6 million of up-front funding in 2020-21 and up to £5 million of up-front funding in both 2021-22 and 2022-23 be applied to fund the GLA's share of the costs of projects proposed by the 33 billing authorities which seek to maximise business rates and council tax income including enhancing property inspection functions; and
- Delegates authority to the Executive Director of Resources to enter into agreements with the 33 London billing authorities for these projects which ensure that the financial outcomes and wider outputs are monitored.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision, and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature: **Date:** 18/3/20

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

1.1 In 2020-21 the GLA is forecast to receive £4.7 billion in revenues through council tax, retained business rates and Crossrail business rate supplement. The largest element of this is the £3.4 billion the GLA is forecast to receive under the business rates retention scheme from the estimated 320,000 non-domestic ratepayers in London – in line with its 37 per cent share of the total tax take. The GLA will also receive over £1 billion through the Mayor's council tax precept on the 3.6 million band D equivalent domestic properties in London. A further £268 million – 100% of the tax take – will be received in respect of the Crossrail Business Rate Supplement payable from ratepayers of the estimated 48,000 assessments on the local rating list which have a rateable value exceeding £70,000.

1.2 The GLA receives the revenues directly from the 33 London billing authorities who are responsible for collecting and enforcing each tax. It is therefore dependent on their forecasts and collection rates as well as their ability to minimise the levels of arrears and tackle fraud in relation to the claiming of reliefs for the income it ultimately receives. Billing authorities also have the statutory powers to formally submit proposed amendments to the domestic and non-domestic rating lists through the Valuation Office Agency (VOA) – the statutory body with responsibility for valuation in England and Wales – where errors or omissions have been identified or properties have been incorrectly valued. It is, however, for the VOA to make the final determination as to whether or not the rating list should be amended.

1.3 It is not uncommon for domestic properties, commercial buildings and other assessments to be omitted in full or in part from local valuation lists due to oversights or changes in circumstance. If they are included there is also the risk in the case of non-domestic premises that their valuation may be understated because of the impact of refits or redevelopments which may lead to their temporary removal from the list and a delay in reinstating them once the works are complete. Rateable values may also be incorrectly stated due to a delay in implementing court decisions relating to rating law, the impact of mergers and consolidations of properties, the implementation of national changes in rating policies by the VOA and changes of use or ratepayer type (e.g. from industrial to retail use).

1.4 Since the Enterprise and Regulatory Reform Act 2013 and the related reforms to the business rates appeals system were introduced from 1 April 2017 local authorities are now expected to play an even more active role in reporting changes to the layout or usage of existing properties and the construction of new properties to the Valuation Office Agency so that the non-domestic rating and council tax valuation lists are accurate and kept up to date. This burden on local authorities is increasing due to resource pressures at the Valuation Office Agency which is expected to have lost nearly one third of its staff by 2021 – equivalent to around 1,000 full time posts - as a result of a reduction in its funding from HM Treasury.

1.5 In addition to ensuring the accuracy of the domestic and non-domestic rating lists the GLA also has a direct interest in supporting the 33 local authorities in maximising collection rates and minimising the build-up of in year and prior year arrears while ensuring that robust ethical debt collection policies are followed. The GLA's notional share of the outstanding council tax and business rates arrears in London was around £277 million at 1 April 2020 and taking into account the local borough share and in respect of retained business rates the Government's 33 per cent central share, this represents significant levels of foregone income for local government in London and across England. Related to this are efforts made by London billing authorities to tackle rates and council tax avoidance measures including dealing with erroneous claims for empty property and charitable relief and single person discounts.

1.6 Prior to 2015-16 the GLA made no direct contribution towards these areas of work even though it received an average of 20 per cent of the revenues raised – a share which has increased to around one third since 2017-18 reflecting its current 37% share of retained business rates. Given that billing authorities collectively were bearing around £50 million of expenditure not covered by deductible collection allowances permitted by the Government, this situation was not desirable or sustainable. Since 2015-16 the GLA has entered into more than 75 funding agreements to support a variety of revenue maximisation projects across the 33 local authorities. The funding provided and achievements by these is summarised below.

- £2.4 million has been provided as one-off contributions for 28 primarily incentive payment based business rates maximisation projects. These are estimated to have added around £11 million per annum on an ongoing basis to the GLA's business rates income (an expected net surplus over three years from 2018-19 to 2020-21 alone of over £30 million);
- a £4.8 million aggregate contribution (including £1.6 million this year) over the three financial years from 2017-18 to 2019-20 to jointly fund around 110 property inspectors across 32 authorities which was approved in MD2177 in October 2017. While the impact of this funding cannot be quantified precisely in terms of additional revenues, it is worth noting that the GLA's forecast business rates income in 2020-21 (allowing for the ending of the current business rates pilot and inflation) will be around £100 million higher than it was at the start of 2017-18 on a comparable basis; and
- a £1.3 million contribution towards 15 projects across six boroughs since 2015-16 to tackle historic council tax and business rates arrears which has generated a direct net revenue gain for the GLA of nearly £5 million as well as reducing the build-up of in year arrears.

1.7 There are a number of significant risks and challenges emerging over the next 12 months which are likely to affect the level of resources available to London government including:

- the Government's planned multi-year Spending Review which along with the fair funding review will affect the overall level of baseline funding available to support local services in the capital;
- the revaluation of all 320,000 non-domestic premises in London and the circa two million across England as a whole in April 2021, which will affect the taxbase and tax take in each local authority. This will require significant work to implement the new rating list as well as ensuring its initial and ongoing accuracy;
- the launch of the Government's planned fundamental review of business rates as a tax which may result in significant changes being introduced during the current Parliament including potential devolution of the tax, reforms to reliefs, a reduction in the overall tax take and even its abolition entirely;
- the reset of business rates growth expected in April 2021 which will remove and redistribute the additional revenues received above baseline since the retention system was introduced in 2013-14. This is likely to result in a net transfer of resources away from London overall;
- potential changes to the mechanism for determining business rates growth by the Government which may lead to an even greater emphasis being placed on the accuracy of the VOA's valuation and rateable value data in determining the revenues retained by local authorities; and
- maximising the potential business rates revenues retained by London government in 2020-21 before the above changes and reforms are implemented.

1.8 This decision sets out proposals to allocate funding to support business rates and council tax revenue maximisation work over the next three financial years taking into account bids submitted by the 33 London billing authorities. The GLA would provide funding in proportion to its share of any additional revenues generated on the basis that its up-front contribution would be more than reimbursed by the additional revenues generated in future financial years.

2. Objectives and expected outcomes

2.1 The GLA invited initial expressions of interest from the 33 London billing authorities for revenue maximisation projects in November 2019. Responses were received from all authorities by the end of January 2020 and their bids differ in scope depending on their specific local requirements and factors including the relative sizes of their council tax and business rates taxbases. The projects proposed will focus on maximising income, primarily as a result of enhancements to property inspection functions, identifying assessments which have been omitted from, or are undervalued in the rating list and reducing council tax and business rates arrears using ethical collection measures and other initiatives to tackle avoidance. The GLA made clear that its funding support should not generally be used to resource the billing authorities' normal day to day collection work in respect of business rates which are funded by the collection allowance they are permitted to deduct from their rates income using a calculation approved by the Secretary of State.

2.2 Based on the bids received the total cost of projects proposed would be around £38 million over the next three years of which the GLA would contribute an estimated £14.7 million – or just under £5 million per annum - reflecting its 55% share of locally retained business rates in 2020-21 and its relative share of the local Band D council tax in each authority. Billing authorities would contribute the remaining £23.2 million cost from their local resources. A contingency of £1 million has also been made available for 2020-21 in respect of the GLA's funding in case additional project needs are identified in the lead up to the April 2021 revaluation and business rates reset.

2.3 The largest proportion of the GLA's funding – nearly two thirds – will be applied to support property inspection and related work which may be done in-house or through the use of external contractors operating on an incentive or fixed fee basis. This will include the following types of activity:

- ensuring all domestic non-domestic premises and assessments are accurately included and valued on the local valuation list;
- identifying specific high risk assessments such as telecommunications networks, advertising rights and mobile phone masts which have been omitted from the valuation list or are materially undervalued;
- confirming premises are being used for the purpose stated on the rating list e.g. for commercial or residential purposes including whether these assessments are empty or capable of beneficial occupation;
- ensuring the redevelopment, refurbishment, extension and/or reconstitution of properties is correctly recorded and reported as soon as this work is completed and the properties are reoccupied or brought into use;
- advising business ratepayers of their eligibility for any reliefs they may be entitled to – for example small business rate and retail relief; and
- confirming that the property and/or taxpayer is eligible for any discounts, reliefs and exemptions being claimed in order to reduce fraud and tackle avoidance.

2.4 Up to £5 million of the GLA's funding over the three years will be used to maximise collection rates, and reduce historic arrears using ethical collection methods. The projects funded will generally support work which uses appropriate tracing tools to contact debtors and seek to maximise income by:

- identifying debts outstanding through system reports and focusing on persistent debtors who are considered to be capable of paying;
- interviewing business ratepayers or council taxpayers in arrears or in default with a view to making payment arrangements, offering advice and collecting payments;
- pursuing debtors through a variety of contact mediums;

- negotiating arrangements for payment or settlement in compliance with local council procedures;
- providing an initial point of contact and advice for council taxpayers on low incomes who may be eligible for council tax support or other exemptions and discounts to promote take up of these and thus eliminate most if not all of their outstanding council tax liabilities; and
- monitoring the ongoing payments agreed with debtors.

2.5 Based on the 75+ projects the GLA has supported since 2015-16 the Executive Director Resources is confident that the proposed up-front investment relating to these projects will be recovered over time as a result of the additional council tax and business rates income generated. Supporting this work also demonstrates the GLA's ongoing commitment to working with London billing authorities reflecting both the benefits achieved by the London business rates pool since 2017-18 and the capital's long-term fiscal devolution aspirations.

3. Equality comments

3.1 As public bodies, the GLA and the functional bodies must comply with section 149 of the Equality Act 2010, which provides for the "public sector equality duty". This duty requires each public body to have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, to advance equality of opportunity, and to foster good relations between people who share a relevant protected characteristic and those who do not. The relevant protected characteristics covered by section 149 are: age; disability; gender reassignment; pregnancy and maternity; race; sex; religion or belief; and sexual orientation. Observance of the duty may involve, in particular, removing or minimising any disadvantage suffered by those who share a relevant protected characteristic, taking steps to meet the needs of such people and encouraging them to participate in public life or in any other activity where their participation is disproportionately low, including tackling prejudice and promoting understanding. In limited circumstances this may involve treating people with a protected characteristic more favourably than those without the characteristic.

3.2 There are no direct equality implications for the GLA arising out of this decision as any projects will be managed by the relevant London billing authority and any staff employed on the project will be recruited by them under their terms and conditions and any contract it enters into will be under the terms of its procurement code. Each authority should have regard to appropriate equality considerations in its role as a public authority under relevant legislation.

4. Other considerations

Risks

4.1 All projects are expected to be self-financing with any up-front costs being offset by additional revenues generated over time. Within the funding agreements that each billing authority will be bound by, the GLA will require them to identify the overall financial and related outputs and outcomes achieved including where measurable the revenues generated or outstanding debts recovered when the funding is drawn down.

5. Financial comments

5.1 This proposed Decision is financial in nature as it relates to the GLA's primary funding sources for its revenue services. In 2020-21 these revenue sources will also provide around £2 billion of funding for TfL – including £1 billion of support for capital investment, just under £1 billion for MOPAC, £400 million for the LFC and £40 million for the two Mayoral Development Corporations combined, in addition to around £906 million expected to be paid to MHCLG in tariff and levy payments under the rates retention system to support local services elsewhere in England.

5.2 The GLA will incur up-front costs in relation to projects supported under this proposed Decision which will be charged initially to the Mayor's business rates reserve. These projects are expected generally to be self-financing within each financial year or potentially the next financial year as a result of the additional revenues generated in council tax and business rates.

5.3 An annual budget of £6.0 million has been earmarked in the Mayor's approved 2020-21 revenue budget to fund any up-front costs in 2020-21 with a further £5.0 million of up-front funding proposed in both 2021-22 and 2022-23. A total contribution of just under £14.5 million over these three years is proposed for allocation by the GLA at this stage across the 33 authorities including £4.8 million in 2020-21. This £14.5 million GLA contribution is expected to be matched by a £23 million contribution from the 33 billing authorities in line with existing relative council tax and business rates shares. A £1.2 million contingency will therefore be held back should additional projects be identified and required in 2020-21 in the lead up to the April 2021 revaluation and business rates reset or to support collective work to maximise revenues for the London business rates pool. Around £0.3 million is unallocated at this stage across the subsequent two financial years compared to the approved budget. Should additional resources be required for 2021-22 and/or 2022-23 these will be considered prior to the setting of the Mayor's budget for those financial years.

5.4 The GLA's proposed annual contribution equates to only 0.1 per cent of the £4.7 billion the GLA is expected to receive from business rates, council tax and the Crossrail business rates supplement in 2020-21 – and the level of funding proposed should be considered in this relative context.

6. Legal comments

6.1 The 32 London boroughs and the Corporation of London are the billing authorities for non-domestic rates, council tax and the Crossrail business rate supplement in their area under the Local Government Finance Act 1988, the Local Government Finance Act 1992 and the Business Rate Supplements Act 2009 respectively. Under section 41 of the 1988 Act and Chapter 2 of the 1992 Act it is the responsibility of the valuation officer for a billing authority to compile, and then maintain, its local non-domestic (business rates) and domestic (council tax) rating lists.

6.2 Under section 34 of the GLA Act the GLA has the power to do anything calculated to facilitate, or is conducive or incidental to, the exercise of the GLA's functions. Taking steps to increase revenue is so calculated. This power is subject to the limitation that the GLA may not raise money by virtue of it, except in accordance with relevant legislation. In the present case any money to be raised is to be raised by the individual Boroughs in accordance with the relevant legislation. Reasonable expenditure designed to achieve a better level of business rates and council tax income for the GLA, through improvement of the non-domestic rating or council tax valuation list of a Borough, or increasing collection levels more generally, is therefore within the powers of the GLA.

6.3 The formal agreement with each billing authority will be consistent with the GLA's standard format which has been approved by the Commercial law team.

7. Planned delivery approach and next steps

7.1 The planned project delivery is set out below:

Activity	Timeline
Collect responses from the 33 billing authorities to determine interest in undertaking projects.	Completed January 2020
Arrange funding agreements to be signed by billing authorities wishing to undertake in a project.	April 2020
Deadline for billing authority amendments to submit a claim for funding in 2020-21	March 2021
Deadline for billing authority amendments to submit a claim for funding in 2021-22	March 2022
Deadline for billing authority amendments to submit a claim for funding in 2022-23	March 2023

Appendices and supporting papers:
None

Public access to information Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval. If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note**: This form (Part 1) will either be published within one working day after approval or on the defer date.
Part 1 Deferral: **Is the publication of Part 1 of this approval to be deferred? No** Until what date:
Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication. **Is there a part 2 form – No**

ORIGINATING OFFICER DECLARATION:	Drafting officer to confirm the following (✓)
Drafting officer: Martin Mitchell has drafted this report in accordance with GLA procedures and confirms the following:	✓
Sponsoring Director: Martin Clarke has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.	✓
Mayoral Adviser: David Bellamy has been consulted about the proposal and agrees the recommendations.	✓
Advice: The Finance and Legal teams have commented on this proposal. The proposal originates from Finance.	✓
Corporate Investment Board This decision was agreed by the Corporate Investment Board on 16 March 2020.	

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature M. D. Elle **Date** 16.3.20

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature D. Bellamy **Date** 17/3/2020