GREATER**LONDON**AUTHORITY

REQUEST FOR DIRECTOR DECISION 2104

Title: Project to Maximise Business Rates Income In the London Borough of Croydon

Executive Summary:
Under the business rates retention scheme introduced in April 2013 the GLA receives 20% of all business rates income – 40% of the locally retained share - collectable by the 33 London billing authorities and benefits proportionately from any real terms incremental growth in the taxbase. This share will increase to 37 per cent in 2017-18. In 2016-17 the GLA is forecast to receive an estimated £18.3 million from the London Borough of Croydon (LB Croydon) under the business rates retention scheme and a further £3.2 million through the separate Crossrail Business Rate Supplement (BRS).

The Borough Council has approached the GLA to seek a contribution towards a business rates income maximisation project which has been procured from a recognised contractor in this field. This work has been completed and has identified assessments which have been omitted from or are undervalued in the rating list. The project has resulted in £831,000 of additional rateable value being identified and added to the rating list at a total cost to the Council of £62,300 in respect of the payment made to its contractor. This project will as a result generate an estimated £413,000 of ongoing additional rates income of which £83,000 will be paid to the GLA in respect of 2016-17. The GLA's share of the uplift in rates income is expected to increase to over £150,000 in 2017-18.

In Mayoral Decision 1553 the Mayor agreed that the GLA should support borough business rates maximisation projects in principle and delegated authority to the Executive Director Resources to approve these on the condition that they should be self financing and result in additional rates income on an ongoing basis. This decision seeks approval for the GLA to contribute 40 per cent of the one off costs incurred - £25,000 – for the project. The costs will be charged initially to the Business Rates Reserve with the additional revenues generated from the project being paid over to the GLA through collection fund surpluses in future years as well as forming part of the business rates baseline from 1 April 2017.

Decision:
That the Executive Director of Resources approves £25,000 as a contribution towards a project by the London Borough of Croydon to maximise business rates income in the borough.

AUTHORISING DIRECTOR

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities.
It has my approval.

Name: MARTIN CLARKE **Position:** EXECUTIVE DIRECTOR RESOURCES

Signature: M.T. **Date:** 20.03.17

TOM MIDDLETON ON BEHALF OF MARTIN CLARKE

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

1.1 In 2016-17 the GLA is forecast to receive £18.3 million of income through the business rates retention scheme from non domestic ratepayers in the London Borough of Croydon. This is in line with the 20 per cent share of total business rates income – or 40 per cent of the locally retained share – which accrues to the GLA under the scheme. The GLA's business rates income from Croydon is expected to rise to £42 million in 2017-18 as a result of the increase in the GLA's share of retained business rates to 37 per cent and the impact of the 2017 revaluation on the borough's taxbase. If there is net growth in the rates base each year in real terms this accrues to the GLA on the same percentage basis. The GLA also receives around £3.5 million in Crossrail BRS revenues annually from the Croydon Borough.

1.2 The London Borough of Croydon has asked the Greater London to make a contribution towards a project which has maximised business rates income by identifying hereditaments which were either not currently included on the Valuation Office's rating list or alternatively have an allocated rateable value which is understated.

1.3 The borough council procured specific software for a small one off charge and the GLA's contribution will be used to finance the rateable value finder project work undertaken with the support of the contractors employed. The finder's fee payable to the contractor is in proportion to the additional rateable value added to the Valuation Office's rating list which has resulted in additional business rates being payable on the assessments affected.

1.4 The aggregate sums payable by Croydon to its contractor equate to 7.5 per cent of the rateable value uplift made to the rating list as a result of the project work – of which 40 per cent is proposed to be payable by the GLA in line with its locally retained share of business rates for 2016-17. The sum payable by the GLA would be capped at a maximum of £25,000.

1.5 It is estimated that the amendments to the rating list resulting from the project have delivered an uplift in rateable value of £831,000 which potentially would deliver an estimated £413,000 of ongoing additional income based on the 2016-17 NNDR multiplier. The GLA is estimated to gain a £83,000 of additional rates income in 2016-17 based on its existing 20 per cent share potentially rising to around £150,000 in 2017-18 when this share increases to 37 per cent. Over five years therefore for a one off investment of up to £25,000 the GLA would potentially secure additional rates income of over £680,000 in real terms i.e. a net surplus of over £655,000.

1.6 As the sum payable by the GLA is conditional on and proportionate to the rateable value added to the rating list there would be no net cost were the project not to have delivered additional rates income.

1.7 Croydon is making a legitimate request for GLA support as billing authorities do not explicitly receive additional funding central government to fund the costs of business rates maximisation projects and any investment they make which increases the size of the rating list benefits the GLA financially on a proportionate basis. The funding will not be used to resource the borough council's normal collection and enforcement work in respect of business rates which is financed through its cost of collection allowance. Without the GLA's support the borough would be required to pay 100% of the cost of its rates maximisation projects but only receive 30% of the additional income which results with the remaining gains being apportioned between the GLA (20%) and the Secretary of State (50%) in 2016-17.

1.8 The rates income arising from any additional rateable value added to the rating list would be transferred to the GLA in cash terms through the collection fund surplus or deficit forecast prepared in January 2017 or if identified after that month in January 2018. These sums would be payable through an adjustment to the 2017-18 (or 2018-19) instalments made under the rates retention scheme. Similar arrangements would apply should any in year adjustments be made in subsequent years. This will include any backdated sums due for prior years in addition to any extra sum collectable in year if applicable. The aggregate additional rateable value identified and secured will then form part of the baseline rating list in future years and any benefit will accrue to the GLA in line with its post April 2017 37 per cent share on an ongoing basis – or whatever percentage share may apply after April 2018 as a result of the move towards 100% local retention of business rates income.

2. Objectives and expected outcomes

2.1 Croydon has contracted a recognised rating expert to review its rating list in order to identify hereditaments which have been omitted from the local rating list or were incorrectly valued through its tailored software and project management tools.

2.2 The Council has procured the licence for the interrogation software required for a small one off fee which is required to undertake the project. The project tools within the software bring together a wide range of commercial property data into a flexible and sophisticated case management system and provide key calculation and estimation of potential increases in yield.

2.3 The project interrogation tool used by the contractor seeks to identify assessments either omitted from the non domestic rating list entirely or undervalued.

2.4 Under the terms of the agreement between Croydon and its contractor the latter would receive 7.5% of the additional rateable value identified as a one off payment after it is confirmed that these assessments/amendments have been adjusted on the Valuation List. In respect of the project for which funding is requested this has already been delivered.

2.5 In light of the shared benefits Croydon has requested that the GLA contribute 40% of the cost of the one off incentive payment to the contractor i.e. £25,000 – this being its current share of the 50% local retention share under the business rates retention scheme pre this cap. If the consultant's work

2.6 In summary therefore

- The contractors working for the council have identified additional rateable value which has been added to the rating list in Croydon of £831,000 and the contractors have received a finder's fee of £62,000 – 7.5% of the uplift. It is proposed the GLA contribute £25,000 of these costs (i.e. 40% of the total contractor payments) and Croydon £37,300.

- Based on the £62,300 payment estimated additional rates income of up to £413,000 per annum is expected to be generated of which up to £86,000 will accrue to the GLA immediately potentially rising to £150,000 once the GLA's business rates share increases to 37 per cent in April 2017 . This represents a potential surplus of £655,000 over five years in excess of the £25,000 project cost;

- Potentially additional Crossrail BRS income could also be generated annually up to a maximum of £16,260 (i.e. 2% of the £831,000 rateable value be added to the list) – assuming the assessments affected have rateable values above the current qualifying threshold of £55,000.

3. Equality comments

3.1 There are no direct equality implications for the GLA as the project has been managed by the London Borough of Croydon and any staff employed on the project in addition to those working for the contractor will be recruited by it under its terms and conditions and any contract it enters into will be under the terms of its procurement code. The Council should have regard to appropriate equality considerations in its role as a public authority under relevant legislation.

4 Other considerations

4.1 The project is self financing with any up front costs being offset by additional non domestic rating income which has already been generated. This is due to the fact that the GLA receives 40% of any rateable value growth but is only required to make a one off contribution to the contractor via LB Croydon equivalent to a maximum of 3% of any rateable uplift made to the rating list.

4.2 There is a marginal risk that part of the expected uplift may be lost due to potential challenges by ratepayers but it would require 90 per cent of the identified revenue to be lost for the GLA to incur a deficit on the project over two years and 97 per cent over 5 years which is highly unlikely. Overall however these risks are considered marginal compared to the potential gains.

5. Financial comments

5.1 In 2016-17 the GLA is forecast to receive an estimated £18.3 million from the London Borough of Croydon under the business rates retention scheme and a further £3.3 million through the Crossrail Business Rate Supplement. These sums are forecast rise to £42.0 million and £3.5 million respectively in 2017-18 as a result of the impact of the 2017 revaluation and the increase in the GLA's share of business rates to 37 per cent.

5.2 The Council collects non domestic rates and Crossrail Business Rate supplement revenues on behalf of the GLA in respect of its relevant share (20% and 100% respectively in 2016-17) but does not receive discrete additional funding to support work which maximises the size of the rating list – and therefore the level of rating income. Its funding – via the respective cost of collection allowances – is purely for its billing and enforcement duties. It is therefore reasonable for the GLA to be asked to contribute towards efforts to maximise the size of the rating list and address undervaluations of particular assessments relative to their correct market rateable value.

5.3 The GLA has been asked therefore to contribute towards 40% of the costs of the business rates maximisation project which has been incurred in line with its locally retained share. Its contribution is conditional on the omitted/undervalued hereditaments being amended on the rating list by the Valuation Office Agency. It is estimated that any additional revenues generated in year would be transferred to the GLA in cash terms through the estimated collection fund surplus/deficit adjustment made to instalments in the following year(s). The ongoing impact would result in an uplift in annual rates income baseline thereafter.

5.4 In Mayoral Decision 1553 the Mayor agreed that the GLA should support borough business rates maximisation projects in principle and delegated authority to the Executive Director Resources to approve these on the condition that they should be self financing and result in additional rates income on an ongoing basis. This project meets these criteria and therefore this decision may be approved by the Executive Director Resources under the powers delegated to him.

6. Legal comments

6.1 The London Borough of Croydon is the billing authority for non-domestic rates in its area under the Local Government Finance Act 1988. Under section 41 of that Act it is the responsibility of the valuation officer for a billing authority to compile, and then maintain, its local non-domestic rating lists. It is noted at 1.7 above that billing authorities do not receive discrete funding from government grant to assist in maximising the size of the rating list.

6.2 The GLA has an interest in maximising business rates income in each London billing authority as it receives 20 per cent of any additional revenues collected – equating to 40% of the locally retained share in 2016-17. On that basis it is legitimate for GLA resources to be used to support business rates maximisation project in proportion to its local share under rates retention.

6.3 Under section 34 of the GLA Act the GLA has the power to do anything calculated to facilitate 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 in accordance with the relevant legislation. Reasonable expenditure designed to achieve a better level of business rates income for the GLA, through improvement of the non-domestic rating list of a Borough, is therefore within the power of the GLA.

6.4 The formal agreement with the London Borough of Croydon is 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
Procurement of contract	During 2016-17
Confirmation of assessments omitted from or undervalued in rating list	By March 2017 as target date but this could be extended.
Payment made by LB Croydon to contractor and by GLA to LB Croydon based on its 40 per cent share	Expected by 31 March 2017
Amendments made by Valuation Office to non domestic rating list – resulting in adjustments to ratepayer bills	Expected by 31 March 2017 but could be later
Earliest date by which revenues would start to be received by GLA as a result of uplift in cash terms to 2017-18 instalments through the estimated collection fund surplus/deficit for LB Croydon in respect of 2016-17 calculated in January 2017	1 April 2017
2016-17 collection fund outturn and NNDR3 outturn returns for LB Croydon reflecting audited uplift which would be incorporated in the GLA's accounts on a pro rata basis (2017-18 equivalent in brackets).	30 September 2017 (30 September 2018 for 2017-18 outturn)

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
If YES, for what reason:

Until what date: (a date is required if deferring)

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, GLA Group Finance Manager has drafted this report in accordance with GLA procedures and confirms that:	✓
Assistant Director/Head of Service: David Gallie has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.	✓
Financial and Legal advice: The Finance and Legal teams have commented on this proposal, and this decision reflects their comments. The proposal originates from the Group Finance team.	✓
Corporate Investment Board: The Corporate Investment Board reviewed this proposal on 20 March 2017.	

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature M.T.M **Date** 20-03-17
TOM MIDDLETON ON BEHALF OF MARTIN CLARKE