GREATER**LONDON**AUTHORITY

**REQUEST FOR DIRECTOR DECISION – DD2307**

**Title: To Approve Funding for a Project to Maximise Business Rates Income in the London Borough of Waltham Forest in 2018-19 and 2019-20**


**Executive Summary:**

The London Borough of Waltham Forest has approached the GLA to extend its contribution for a project to maximise business rates income in the borough for a further two years covering the 2018-19 and 2019-20 financial years. The project seeks to identify assessments omitted from or undervalued in the Valuation Office Agency's non-domestic rating list for the borough. In 2017-18 the project identified ongoing additional business rates income for the borough of £375,000 of which an estimated £140,000 accrued to the GLA for a one off GLA contribution of around £46,000.

This decision seeks approval for the GLA to extend its funding for the project for a further two years by providing a contribution of up to £50,000 towards the estimated total project cost of £143,000 – reflecting the GLA's current 36 per cent business rates retention share under the London 100% pilot. The up-front cost will be charged to the GLA's business rates reserve.


**Decision:**

That the Executive Director of Resources approves a contribution from the Greater London Authority to the London Borough of Waltham Forest of up to £50,000 over the two financial years 2018-19 and 2019-20, to fund the continuation of a project to maximise business rates income in the borough. It is anticipated that up to £30,000 will be payable by the GLA in 2018-19 and up to £20,000 in 2019-20.

**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. J. Clarke **Date:** 10.12.18

## PART I - NON-CONFIDENTIAL FACTS AND ADVICE

### Decision required – supporting report

### 1. Introduction and background

1.1. In 2018-19 the GLA will receive an estimated £25.8 million from Waltham Forest business ratepayers – in line with its 36 per cent share of revenues under the business rates retention scheme. If there is net growth in the rates base each year in real terms, this accrues to the GLA on broadly the same percentage basis. It is also due to receive a further £1.6 million through the Crossrail Business Rate Supplement.

1.2. In Mayoral Decision 1553 Mayoral approval was given to the principle of supporting projects by billing authorities which maximise business rates income. Mayoral Decision (MD) 1553 delegated authority to the Executive Director Resources to enter into contractual agreements with boroughs to support such projects, on the condition that they should be self-financing and result in additional rates income.

1.3. In 2015-16 the GLA financed 40% - its then local retention share - of a business rates maximisation project commissioned by the Borough Council which identified hereditaments which were either omitted from, or undervalued in, the local rating list. This was approved in Director Decision (DD) 1393. The 2015-16 project identified approximately £0.9 million of rateable value which was added to the borough's local rating list, generating just under £430,000 of ongoing annual rates income of which an estimated £160,000 now accrues to the GLA in line with its 36 per cent retention share compared to a one off GLA contribution of around £54,000.

1.4. Subsequently the GLA extended funding for the continuation of the business rates income maximisation project into 2017-18. Funding of around £45,000 was provided in line with the approval in DD2046 and the project identified an estimated £375,000 of additional business rates income of which an estimated £140,000 accrued to the GLA in line with its current retention share. Taking the two funding approvals into account for a one off investment of £99,000 the GLA has secured ongoing business rates income of around £300,000 per annum which will be retained until at least 1 April 2020.

1.5. The London Borough of Waltham Forest has asked the GLA to make a contribution of up to £50,000 towards the continuation of this project, which will again seek to maximise business rates income covering the two-year period from 1 April 2018 to 31 March 2020.

1.6. The GLA's contribution will be used again to finance the rateable value finder project work undertaken with the support of the contractors. The finder's fee payable to the contractor is again in proportion to the additional rateable value added to the Valuation Office Agency's rating list which would result in additional business rates being payable on the assessments affected.

1.7. 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 each year. The aggregate additional rateable value identified and secured will then form part of the baseline rating list in the following financial year, as well as future years and any benefit will accrue to the GLA in line with its share of business rates income on an ongoing basis.

1.8. This is a legitimate request for funding as billing authorities do not explicitly receive additional funding central government to fund the costs of business rates maximisation and any investment they make which increases the sums collected 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.

## 2. Objectives and expected outcomes

2.1. Waltham Forest 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 procured the licence for the interrogation software required which was required to undertake the previously funded projects. 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. The project interrogation tool used by the contractor seeks to identify assessments either omitted from the non-domestic rating list entirely or undervalued.

2.3. Under the terms of the agreement between Waltham Forest and its contractor, the latter would receive 10% 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 subject to a maximum cap of £88,000 in 2018-19 and £55,000 in 2019-20. The lower figure in 2019-20 reflects the lower incentive to grow the taxbase in that year due to the planned baseline reset in 2020-21. This maximum £143,000 payment consistent with a GLA contribution of £50,000 over the two years would be triggered by a £1.43 million (or higher) uplift in rateable value based on the 10 per cent fee. An uplift of this amount would generate additional business rates income of up to £690,000 per annum, of which 36 per cent (c.£250,000) would be attributable to the GLA. This arrangement ensures the costs of the project are capped for LB Waltham Forest and the GLA, whilst maintaining an incentive for the contractor to identify additional rateable value.

2.4. In light of the shared benefits Waltham Forest has requested that the GLA contribute 36% of the cost in line with its local share of business rates income in both years under the London 100% retention pilot. Any contribution payable will vary depending on the additional rateable value identified by the project and added to the rating list by the Valuation Office. If no increase in rateable values were achieved the cost to the GLA of the project would be zero.

2.5. In summary, the contractors will identify additional rateable value which could be added to the rating list in Waltham Forest – for which they would receive a total payment equating to 10% of the rateable value identified and secured subject to a maximum payment of £143,000 over two years. Of this the GLA would contribute up to £50,000 and this contribution would be subject to the VOA amending the list to reflect these assessments.

## 3. Equality comments

3.1. There are no direct equality implications for the GLA as the project will be managed by the London Borough of Waltham Forest and any staff employed on the project are recruited by the Council 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, including the Public Sector Equality Duty under section 149 of the Equality Act 2010.

## 4. Other considerations

4.1. The project is intended to self-financing with the upfront costs being offset by additional business rates income generated. The GLA will receive 36% of any rateable value growth but is only required to make a one off contribution to the contractor via LB Waltham Forest equivalent to 3.6 percent of any rateable value uplift made to the rating list. If no net additional non-domestic rating is generated through additions or uplifts to the local rating list made by the VOA, no payments are due from the GLA.

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. Overall however these risks are considered marginal compared to the potential gains.

## 5. Financial comments

5.1. The GLA receives non-domestic rates and business rate supplement income collected by LB Waltham Forest in respect of its relevant share (36% and 100% respectively) in 2018-19 and this share is expected to remain the same in 2019-20. The Council collects these revenues on behalf of the GLA; through the cost of collection allowance it retains a small proportion of business rates income to fund billing and enforcement duties.

5.2. The Council does not receive discrete additional funding to support work which directly maximises the size of the rating list although in both years. It is therefore reasonable for the GLA to be asked to contribute towards efforts to maximise the size of the rating list and address under-valuations of particular assessments relative to their correct market value.

5.3. Funding will be provided to LB Waltham Forest via a grant agreement to be signed by the GLA and the Borough. The maximum upfront cost of up to £50,000 will be funded from the business rates reserve. However, in effect, the project will be self-financing over time and result in additional revenues on an ongoing basis as no payment is due under the agreement unless there is a net uplift to business rates revenues.

5.4. The up front project costs will be charged to the GLA's business rates reserve.

5.5. In common with 31 other London billing authorities the GLA is also contributing to the costs of additional property inspection staff and related activities in order to ensure the accuracy of the business rates valuation lists as well as seeking to identify fraudulent and erroneous claims being made for reliefs and exemptions.

## 6. Legal comments

6.1. The London Borough of Waltham Forest 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.

6.2. The GLA has an interest in maximising business rates collection in the borough on the basis that, as noted above, it currently receives 36 per cent of any additional income collected through reduced arrears. 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. An increase in 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 payment for the GLA, through the reduction of arrears in a billing authority, is therefore within the power of the GLA.

6.3. The formal agreement with the London Borough of Waltham Forest should be consistent with the GLA's standard format.

## 7. Planned delivery approach and next steps

| Activity | Timeline |
|---|---|
| Procurement of contract | Not applicable |
| Confirmation of assessments omitted from or undervalued in rating list | By March 2019 for 2018-19 and March 2020 for 2019-20 |
| Negotiations to add assessments to rating list with Valuation Office | By March 2019 for 2018-19 and March 2020 for 2019-20 as target date but this could be earlier. |
| Payment made by LB Waltham Forest to contractor and by GLA to LB Waltham Forest based on its agreed share | Expected by April 2019 for 2018-19 and April 2020 for 2019-202018 but could be earlier – no payment is triggered until rating list uplift/amendments are made |
| Amendments made by Valuation Office to non-domestic rating list – resulting in adjustments to ratepayer bills | Expected by March 2019 for 2018-19 and March 2020 for 2019-20 |
| Final claim for funding under this approval | Summer 2020 |

**Appendices and supporting papers:**

None.

**Public access to information**

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) 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 it has been approved 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 – Sensitive information**

Only the facts or advice that would be exempt from disclosure under FoIA should be included 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:**<br>Martin Mitchell has drafted this report in accordance with GLA procedures and confirms the following: | ✓ |
| **Assistant Director/Head of Service:**<br>David Gallie has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval. | ✓ |
| **Financial and Legal advice:**<br>The Finance and Legal teams have commented on this proposal. The Decision originates from Finance. | ✓ |
| **Corporate Investment Board**<br>This decision was agreed by the Corporate Investment Board on 10 December 2018. | |

**EXECUTIVE DIRECTOR, RESOURCES:**

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

Signature M. D. Gallie    Date 10.12.18