GREATER**LONDON**AUTHORITY

REQUEST FOR MAYORAL DECISION – MD1541

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

Executive Summary:

Under the business rates retention scheme introduced in April 2013 the GLA receives 20% of all business rates income – equivalent to £1.4 billion - collectable by the 33 London billing authorities and benefits proportionately from any real terms incremental growth in the taxbase. In 2015-16 it is forecast to receive an estimated £23 million from the London Borough of Brent under the scheme and a further £3.0 million through the Mayor's Crossrail Business Rate Supplement.

The London Borough of Brent 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 identified up to £4.5 million worth of assessments by rateable value which have been omitted from or are undervalued in the rating list. Subject to these changes being successfully added to the list by the Valuation Office it is estimated the GLA could receive up to an additional £185,000 of rates income in the first year (including prior year backdated sums) and an ongoing annual uplift of up to £429,000.

The sum payable to the contractor requires that 10% of the rateable value identified is payable to them once the amendments have been made to the rating list – up to £450,000. This decision seeks approval for the GLA to contribute 40 per cent of the costs of the project - up to £180,000 - in line with its share of locally retained rates with Brent funding the remaining £270,000. If no uplift in business rates income is achieved the cost to the GLA of the project is nil as the contractor payment is linked directly to the rateable value added to the non domestic rating list.

Decision:

That the Mayor approves the payment of up to £180,000 as a one off contribution in 2015-16 towards a project by the London Borough of Brent to maximise business rates income locally. The costs would be charged to the Mayors Resilience Reserve initially – and reimbursed via an estimated £185,000 additional one off business rates income accruing for 2015-16 on a pro rata basis and an ongoing additional revenue estimated at around £429,000 annually at 2015-16 prices.

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: 10/09/15.

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

Decision required – supporting report

1. Introduction and background

1.1 In April 2013, the Government changed the way in which local government is funded through the introduction of the business rates retention scheme. The objective of this new regime is that local authorities should be able to retain a significant proportion of the increase in their business rates revenue to incentivise and reward them for delivering economic growth in their area. Under the arrangements local authorities keep half of any increases in revenue to invest in local services. In London this local share is apportioned between the GLA and the 33 London billing authorities on a 40 per cent to 60 per cent ratio. In 2010 the Mayor also introduced the Crossrail business rate supplement to finance £4.1 billion of the costs of the Crossrail project.

1.2 In 2015-16 the GLA is forecast to receive nearly £1.4 billion in retained rates income from the 33 London billing authorities and a further £220m in revenues from the Crossrail BRS. By 2016-17 it is estimated that retained business rates will fund 85% of the GLA's core revenue budget – compared to less than 0.3% met from rental income, fees and charges. In addition TfL and LFEPA are forecast to receive over £850m and £115m respectively.

1.3 The GLA and the GLA group therefore have a direct incentive to seek ways to maximise business rates income including ensuring all assessments are correctly included and valued on the Valuation Office Agency's non domestic rating list which is the basis for the taxbase. The Executive Director Resources has already approved business rates maximisation projects for several London boroughs which fall within his delegated thresholds. This Decision seeks approval for a project in respect of the London Borough of Brent which is of a value which requires a Mayoral Decision.

1.4 In 2015-16 the GLA is forecast to receive £23.0 million of income through the business rates retention scheme in respect of non domestic ratepayers in the London Borough of Brent. The GLA is also forecast to receive around £3m in Crossrail BRS revenues annually from the borough.

1.5 The London Borough of Brent has asked the Greater London Authority to make a contribution towards a project which will seek to maximise business rates income by identifying additional hereditaments which are either not currently included on the Valuation Office's rating list or alternatively have an allocated rateable value which is understated.

1.6 The borough council has already 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. The finder fee payable to the contractor is in proportion to the additional rateable value added to the Valuation Office's rating list which would result in additional business rates being payable.

1.7 The aggregate sums payable by Brent to its contractor equates to 10 per cent of the rateable value uplift to the rating list – of which 40 per cent would be payable by the GLA. As the sum payable by the GLA is conditional on and proportionate to the rateable value added to the rating list there will be no cost to it should the project not deliver the expected additional rates income. The contract which Brent has entered into with its contractor also permits a refund of payments made on a pro rata basis by the contractor should the uplift in rating income not be sustained. The GLA would under the terms of its agreement with Brent receive 40 per cent of any refund made by the latter's contractor.

1.8 This is a legitimate request as billing authorities do not explicitly receive additional funding from central government to fund the costs of business rates maximisation 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.

1.9 Any additional rateable value added to the rating list in the current financial year will be transferred to the GLA in cash terms through the collection fund surplus or deficit forecast prepared in January through an adjustment to the instalments payable by the Council during the 2016-17 financial year. This will include any backdated sums due for prior years in addition to the sum collectable for 2015-16. The aggregate additional rateable value identified and secured will then form part of the rating list in future years and will accrue to the GLA from 2016-17 onwards in line with its 20 per cent share on an ongoing basis.

2. Objectives and expected outcomes

2.1 Brent has contracted a recognised rating expert endorsed by the Institute of Revenues, Rating and Valuation (IRRV) 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 already 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 contractor's project management tools and the council's own analysis has identified up to £4.5 million of rateable value comprising assessments either omitted from the rating list entirely or undervalued. On 2015-16 prices this equates to potential additional rates income over and above what would have been in place had the project not been undertaken of potentially £2.146 m of which up to an estimated £429,000 would notionally accrue to the GLA on an ongoing basis via its 20 per cent share. The contractor also estimates that taking into account the backdating of these changes for periods prior to 1 April 2015 as well as income for 2015-16 up to an additional £926,000 of one off rates income would be generated in 2015-16 (or potentially in cash terms in 2016-17) of which up to £185,000 would accrue notionally to the GLA. This reflects the fact that some of the properties identified as part of the review are empty and require completion notices to be served before any changes in valuations are made.

2.4 Under the terms of the agreement between Brent and its contractor the latter would receive 10% of the additional rateable value identified as a one off payment after it was confirmed that these assessments/amendments was added to the Valuation List. If the assessments added or amended were subsequently reduced or removed due to rating appeals which resulted in backdated adjustments to the incremental increases arising from the project for 2015-16 or prior years only - the payment to the contractor would be recoverable on a pro rata basis.

2.5 In light of the shared benefits Brent has requested that the GLA contribute 40% of the cost of the one off payment to the contractor i.e. our share of the 50% locally retained share. If the consultant's work does not generate any additional rates revenues in respect of the assessments identified – the cost is zero to the GLA. 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 – and will be repayable on a pro rata basis if the uplift in rates income is not sustained. In practice the GLA contribution is less than one third of the annual estimated gain in rates income.

2.6 In summary therefore

- The contractors have identified up to £4.5m of additional rateable value which could be added to the rating list in Brent – for which they would receive a total payment of up to £450,000 (10% of the rateable value identified) of which the GLA would contribute up to £180,000 (i.e. 40%) if the VOA amended the list to reflect these assessments. If the sums added to the rating list were subsequently lower the GLA payment would be reduced accordingly on a pro rata basis.
- It is estimated the GLA would benefit from one off cash gain in rates income of around £185,000 (including backdated sums for prior years) for 2015-16 and an estimated ongoing full year annual increase of about £429,000 based on the GLA's 20% share. The former would potentially accrue through the collection fund surplus/deficit for Brent for 2015-16 and be receivable in cash terms in 2016-17. The ongoing element would be uplifted to the baseline for 2015-16 onwards.
- Potentially up to an additional £90,000 of Crossrail BRS income could also be generated annually – assuming the assessments affected have rateable values above the threshold of £55,000.

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 Brent and any staff employed on the project 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 will be self financing with any up front costs being offset by additional non domestic rating income generated. If no net additional non domestic rating is generated through additions to the local rating list no payment will be made. Any sums paid to LB Brent will be recoverable on a pro rata basis in respect of amendments affecting 2015-16 or prior year income only if the additions or revisions to the rating list are subsequently removed or appealed successfully over the next five years. This is on the basis that LB Brent's agreement with its contactor includes a recovery mechanism in such circumstances.

4.2 There is a marginal risk that the Council's contractor ceases operations and/or goes into administration or liquidation and therefore is unable to refund any project sums overpaid – resulting in the possibility that the GLA will also be unable to recover these sums. The contractor is a large rating agent and commercial property specialist and therefore this possibility is considered unlikely. The GLA would expect its one off contribution to repaid after four months of the related uplift in the non domestic rating list.

4.3 In its funding agreement with Brent the GLA will require the Council to provide a schedule of the amendments made to the rating list in support of any claim for payment. The agreement will also require the billing authority to notify the GLA if it receives a reimbursement of all or part of the payment made to the contractor – and oblige it to pay over 40% of the sum repaid to the GLA.

5. Financial comments

5.1 In 2015-16 The GLA is forecast to receive an estimated £23m from the London Borough of Brent under the business rates retention scheme and a further £3 million through the Crossrail Business Rate Supplement.

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) 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 any undervaluation of particular assessments relative to their correct market value.

5.3 The GLA has been asked therefore to contribute towards 40% of the costs of the rates finder maximisation project in line with its locally retained share. Its contribution is conditional on the omitted/undervalued hereditaments being amended on the rating list. The sums paid would be recoverable if the revised assessments were subsequently removed or were subject to successful appeal on a pro rata basis but only in respect of any incremental uplifts reversed or reduced in respect of changes for 2015-16 and prior years only. Brent would recover any sums due from the contractor and repay 40% of this to the GLA.

5.4 It is estimated that up to £4.5milion by rateable value could be added to the rating list in Brent from this project – equating to potential rates income, after an allowance for reliefs, of £2.1 million. It is estimated the GLA would benefit from an estimated one off cash gain in rates income of up to £185,000 (including backdated sums for prior years) for 2015-16 and an estimated ongoing annual benefit of about £429,000 based on the GLA's 20% share. The former would potentially accrue through the collection fund surplus/deficit for Brent for 2015-16 and be receivable in cash terms in 2016-17. The ongoing element would be uplifted to the rates income baseline for 2016-17 onwards. Over a five year period the GLA would gain an estimated additional uplift in business rates income of over £2.1m for the proposed £180,000 one off cost of the project.

6. Legal comments

6.1 The London Borough of Brent 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 understood that the Borough does 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 the borough as it receives 20 per cent of any additional revenues collected. It is therefore legitimate for GLA resources to be used to support this project, in what is understood to be the reasonable expectation that it will generate additional revenues significantly in excess of the amount contributed.

6.3 Under section 34 of the Greater London Authority Act 1999 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 rates income for the GLA, through improvement of the non-domestic rating list of a Billing Authority, is therefore within the power of the GLA.

7. Investment & Performance Board

7.1 The Executive Director Resources has delegated responsibility for the management of the business rates retention scheme within the GLA. The GLA receives funding via the scheme under secondary legislation and this project seeks to maximise income from that revenue stream. In addition there is no net cost to the GLA as any payment made under the agreement is only triggered when additional business rates income materialises from amendments to the rating list.

8. Planned delivery approach and next steps

8.1 The planned project delivery is set out below:

Activity	Timeline
Procurement of contract	Summer 2015
Confirmation of assessments omitted from or undervalued in rating list	Summer 2015
Negotiations to add assessments to rating list with Valuation Office	Winter 2015
2015-16 collection fund surplus deficit forecasts submitted by Brent via 2016-17 NNDR 1 return	31 January 2016
Assessments/amendments added to rating list	31 March 2016
Latest date by which revenues would start to be received by GLA as a result of uplift in cash terms (via an adjustment to instalments)	1 April 2016
2015-16 collection fund outturn and NNDR3 reflecting uplift which would be incorporated in the GLA's accounts on a pro rata basis	30 September 2016
Latest date by which revenues would start to be received by GLA as a result of uplift in cash terms (via an adjustment to instalments)	1 April 2016
Latest date by which GLA could recover its pro rata share of its project contribution in certain circumstances were adjustments to rating list not sustained	31 March 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 (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 has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision.	✓
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.	✓
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: Sir Edward Lister has been consulted about the proposal and agrees the recommendations.	✓
Advice: The Finance and Legal teams have commented on this proposal.	✓

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature M. J. Clle **Date** 2.9.15

CHIEF OF STAFF:

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

Signature Edward Li **Date** 03:09:2015