GREATER**LONDON**AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2034

Title: Funding for a Project to Maximise Business Rates Income In the City of Westminster

Executive Summary:

Under the business rates retention scheme the GLA receives 20% of all business rates income collectable by the 33 London billing authorities and benefits proportionately from any real terms incremental growth in the taxbase. In 2016-17 is forecast to receive £351.1 million from the City of Westminster under the scheme and a further £64.1 million through the Crossrail Business Rate Supplement.

The City 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 will seek to identify assessments by rateable value which have been omitted from or are incorrectly recorded in the rating list. Subject to these changes being successfully added to or amended on the rating list by the Valuation Office it is estimated the GLA could receive additional rates income from the date the rating list is amended and potentially - if the adjustments are backdated - a one off sum for prior years.

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 - up to £66,000 – for this project. The project is forecast to deliver an increase in rateable value of around £2.8 million and estimated additional rates income annually for the GLA of just under £275,000 based on its existing 20% share.

Decision:

The Executive Director Resources approves up to £66,000 as a one off contribution in 2016-17 towards a project by the City of Westminster to maximise business rates income locally. The costs would be charged to the Mayors Resilience Reserve initially – and reimbursed via an estimated £275,000 additional business rates income per annum on an ongoing basis. The contribution will directly be proportional to the additional revenues generated up to this cap.

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. D. Clarke

Date: 9.8.16

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 £351.1 million of income through business rates retention scheme in respect of non domestic ratepayers in the City of Westminster. 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 in place since April 2013. 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 £64.1 m in Crossrail BRS revenues annually from the City of Westminster area.

1.2 The City of Westminster has asked the Greater London 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 where a property is incorrectly described in the Valuation list.

1.3 The GLA's contribution will be used to part 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.

1.4 The aggregate sums payable by Westminster to its contractor equates to 6 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 should be no cost to it should the project not deliver additional rates income. The contract which Westminster 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 Westminster receive 40 per cent of any refund made by the latter's contractor.

1.5 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.

1.6 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 by the Council during the 2017-18 (and subsequent) financial year(s). This will include any backdated sums due for prior years in addition to the sum collectable for 2016-17 if applicable. 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 share of rates income on an ongoing basis.

2. Objectives and expected outcomes

2.1 Westminster 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 described through its tailored software and project management tools.

2.2 The contractor will provide the Council with the software to undertake the project at no additional charge. 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 £2.8 million of rateable value comprising assessments either omitted from the rating list entirely or undervalued. On 2016-17 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 £1.375 million of which up to an estimated £275,000 would notionally accrue to the GLA on an ongoing basis via its 20 per cent share.

2.4 Under the terms of the agreement between Westminster and its contractor the latter would receive 6% 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 amendment were subsequently reduced or removed due to rating appeals which resulted in backdated adjustments to the incremental increases arising from the project for 2016-17 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 Westminster 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% local retention share. If the consultant's work does not generate any additional rates revenues in respect of the assessments identified – the cost is in effect 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 it is subsequently removed from the list or appealed successfully over the next five years but only in respect of any incremental rates income repayable in respect of 2016-17 and prior years only.

2.6 In summary therefore

- The contractors have identified up to £2.8m of additional rateable value which could be added to the rating list in Westminster – for which they would receive a total payment of up to £166,000 (6% of the rateable value identified) of which the GLA would contribute up to £66,000 (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 an estimated ongoing annual increase of about £275,000 based on the GLA's 20% share. The former would potentially accrue through the collection fund surplus/deficit for Westminster for 2016-17 and be receivable in cash terms in 2016-17. The ongoing element would be uplifted to the baseline for 2016-17 onwards.
- Potentially up to an additional £55,000 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 City of Westminster 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 all 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 the City of Westminster will be recoverable on a pro rata basis in respect of amendments affecting 2016-17 or prior year income only if the contractor is required to make a repayment of its incentive fee under the terms of its contract. This is on the basis that the City of Westminster'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 is considered unlikely. However it is considered unlikely that the residual ongoing retained business rates income (after and refunds due to ratepayers were the additions/amendments to be partially reversed) will more than four times the GLA's maximum one off £66,000 contribution.

5. Financial comments

5.1 In 2016-17 The GLA is forecast to receive an estimated £351.1 million from the City of Westminster under the business rates retention scheme and a further £64.1 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 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 a proposed rates maximisation project up to a maximum of £66,000 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. The sums paid would be recoverable in certain cases if the revised/amended valuations were subsequently removed from or reversed on the rating list following a successful appeal. Westminster would recover any sums due from the contractor and repay 40% of this to the GLA. No repayment would apply where the amendment arose due to a change of circumstance in respect of the hereditament(s) affected following the original change to the rating list.

5.4 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.

5.5 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 City of Westminster 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. 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 Westminster City Council 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	Summer 2016
Confirmation of assessments omitted from or undervalued in rating list	Summer 2016
Negotiations to add assessments to rating list with Valuation Office	Autumn 2016
2016-17 collection fund surplus deficit forecasts submitted by Westminster via 2017-18 NNDR 1 return	31 January 2017
Assessments/amendments added to rating list	31 March 2017
Earliest 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 2017
2016-17 collection fund outturn and NNDR3 reflecting uplift which would be incorporated in the GLA's accounts on a pro rata basis	30 September 2017
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 2018

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 <u>or</u> 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: <u>Martin Mitchell, GLA Group Finance Manager</u> has drafted this report in accordance with GLA procedures and confirms that:	✓
Assistant Director/Head of Service: David Gallie, Assistant Director Finance has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.	✓
Financial and Legal advice: The <u>Finance and Legal</u> teams have commented on this proposal which originates from Finance, and this decision reflects their comments.	✓

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature M. D. Alle **Date** 9.8.16