

## REQUEST FOR DIRECTOR DECISION – DD1376

### Title: To Approve Funding for a Project to Maximise Business Rates Income In the London Borough of Bexley

#### 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. In 2016-17 the GLA is forecast to receive an estimated £14.0 million from the London Borough of Bexley under the scheme and a further £2.0 million through the separate Crossrail Business Rate Supplement.

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 identified up to £2.5 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 an ongoing annual uplift of up to £160,000 with Bexley receiving a gain of up to £240,000.

The sum payable to the contractor requires that 7.5% of the rateable value identified is payable to them once the amendments have been made to the rating list – up to £187,500. This decision seeks approval for the GLA to contribute 40 per cent of the costs - up to £75,000 with the balance being funded by the borough council.

#### Decision:

The Executive Director Resources approves:

- (a) up to £75,000 as a contribution in 2016-17 towards a project by the London Borough of Bexley to maximise business rates income locally. The costs would be charged to the Mayors Resilience Reserve initially – and reimbursed via an ongoing annual uplift in business rates income from 2016-17 onwards of up to £160,000 at current prices.


#### 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:



Date:

28.4.16

## **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 £14.0 million of income through business rates retention scheme in respect of non domestic ratepayers in the London Borough of Bexley. 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. 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 £4.5m in Crossrail BRS revenues annually from the Bexley borough.
- 1.2 The London Borough of Bexley 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 have an allocated rateable value which is understated.
- 1.3 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.
- 1.4 The aggregate sums payable by Bexley to its contractor equates to 7.5 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 Bexley 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 Bexley receive 40 per cent of any refund made by the latter's contractor.
- 1.5 Bexley 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%).
- 1.6 Any additional rateable value added to the rating list in the 2016-17 financial year in year would potentially 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. This would be payable through an adjustment to the 2016-17 (or 2017-18) 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 20 per cent share on an ongoing basis – or whatever percentage share may apply in future years arising from the move towards 100% retention of business rates income announced by the Chancellor of the Exchequer on 5 October 2015.

## **2. Objectives and expected outcomes**

- 2.1 Bexley 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 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 £2.5 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 up to £0.8 m per annum of which up to an estimated £160,000 would notionally accrue to the GLA on an ongoing basis via its 20 per cent share with the remainder being split between LB Bexley (up to £240,000) and the Secretary of State (up to £400,000) via the central share. This share could potentially double from 2017-18 if – as anticipated – TfL's capital grant is rolled into the rates retention system and the GLA's business rates share is increased to between 35 and 40 per cent.
- 2.4 Under the terms of the agreement between Bexley and its contractor the latter would receive 7.5% 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.
- 2.5 In light of the shared benefits Bexley 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. The exact contribution payable will vary depending on the additional rateable value identified by the project and added to the rating list by the Valuation Office – but will not exceed the £75,000 cap.
- 2.6 In summary therefore
- The contractors employed by the borough council have identified up to £2.5m of additional rateable value which could be added to the rating list in Bexley – for which they would receive a total payment of up to £187,500 (7.5% of the rateable value identified) of which the GLA would contribute up to £75,000 (i.e. 40%) if the Valuation Office Agency (VOA) amended the list to reflect these assessments. If no amendments are made to the rating list the cost to the GLA is zero.
  - It is estimated the GLA would benefit from an estimated ongoing annual increase in rates income of up to £160,000 based on the GLA's current 20% share.
  - Potentially up to an additional £50,000 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 Bexley 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.
- 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 double the GLA's maximum one off £75,000 contribution.

#### **5. Financial comments**

- 5.1 In 2016-17 the GLA is forecast to receive an estimated £14.0m from the London Borough of Bexley under the business rates retention scheme and a further £2 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 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 2016-17 and prior years only. Bexley would recover any sums due from the contractor and repay 40% of this to the GLA.
- 5.4 It is estimated that up to £2.5 million by rateable value could be added to the rating list in Bexley from this project – equating to potential rates income after an allowance for reliefs of £0.8 million. It is estimated the GLA would benefit from an estimated ongoing annual benefit of up to £160,00 based on the GLA's 20% share of total rates income.

#### **6. Legal comments**

- 6.1 The London Borough of Bexley 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 1.5 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 London Borough of Bexley 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:

<b>Activity</b>	<b>Timeline</b>
Procurement of contract	Winter 2016
Confirmation of assessments omitted from or undervalued in rating list	Spring 2016
Negotiations to add assessments to rating list with Valuation Office	Spring 2016
Assessments/amendments added to rating list	31 March 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 2017
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 GLA could recover its pro rata share of its project contribution – if the amendments/additions to the rating list were reversed in full or in part resulting in changes in respect of valuations for 2015-16 and prior years only compared to the valuations prior to the project and as a result Bexley's contractor were required to repay part or all of its payment for the project costs	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, GLA Group Finance Manager 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 Finance and Legal teams (David Gallie and Crispin Owen) have commented on this proposal, 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. Lla*

Date

*28.4.16*