

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2056

Title: To Approve Funding for a Project to Reduce Business Rates Arrears In the London Borough of Islington

Executive Summary:

Under the business rates retention scheme introduced in April 2013 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. This share will increase to 37 per cent in 2017-18. In 2017-18 the GLA is forecast to receive an estimated £99.0 million from the London Borough of Islington under the rates retention scheme and £8.9 million through the Crossrail Business Rate Supplement.

The Borough Council has approached the GLA to seek a contribution towards a project operating from February 2017 to March 2018 costing up to £210,000 which will seek to reduce the existing level of business rates arrears in the borough. The current backlog of arrears is around £15 million of which the GLA's notional share from April 2017 will be £5.6 million. This project would expand on the success of a business rates maximisation project in 2015-16 which delivered an additional £440,000 in ongoing annual business rates income for the GLA.

In Mayoral Decision 1553 the Mayor agreed that the GLA should support projects which maximise business rates income 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. This decision seeks approval for the GLA to contribute 50 per cent towards the cost of a project to reduce arrears reflecting its approximate share of business rates for the period of the project - up to £105,000 - with the borough council also contributing £105,000. It is estimated that up to £15,000 would be paid by the GLA in 2016-17 and up to £90,000 in 2017-18. The costs will be charged initially to the Business Rates Reserve with the additional revenues from the reduction in arrears being paid over to the GLA through collection fund surpluses in future years.

Decision:

That the Executive Director of Resources approves up to £105,000 as a contribution towards a project by the London Borough of Islington to be undertaken between February 2017 and March 2018 to reduce the £15m of outstanding business rates arrears owed by ratepayers in the Borough.

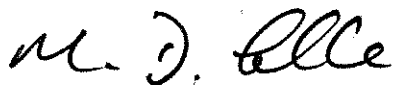
AUTHORISING DIRECTOR

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:



Date:

14.3.17

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 £38.5 million of income through the business rates retention scheme from non domestic ratepayers in the London Borough of Islington. 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. This is expected to increase to £99 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 is also expected to receive around £5.8 million in Crossrail BRS revenues in 2016-17 from the Islington borough – a figure forecast to rise to £8.9 million in 2017-18.
- 1.2 In 2015-16 the GLA financed 40% of a business rates maximisation project which identified hereditaments which were either omitted from or undervalued on the rating list. This was approved in Directors Decision 1290. The finder fee payable to the contractor employed by the Borough Council to undertake this work was in proportion to the additional rateable value added to the Valuation Office's rating list and thus the additional business rates which would be payable. The GLA contributed £132,000 to the project with Islington financing the balance of £199,000. The project identified £4.4 million of rateable value which was added to the rating list generating just under £2.2 million of ongoing annual rates income of which approximately £440,000 has accrued to the GLA based on its current 20% share. So for a £132,000 one off investment the GLA will secure approximately £2.2 million of additional rates income over the next five years – nearly 17 times the original investment.
- 1.3 The London Borough of Islington has asked the Greater London Authority to make a contribution towards a project which will seek to reduce the £15 million of outstanding business rates arrears in the borough as well as ensuring in year arrears are kept to a minimum. Islington will see the third largest increase in rateable values in England in the 2017 revaluation – 45% - after the London Borough of Hackney and West Somerset District Council and there is therefore a risk that without appropriate resources in place the level of arrears could increase significantly over the next five years as many ratepayers will be seeing very large increases in their bills and may therefore face difficulty in paying them.
- 1.4 It is proposed that a team of four staff be created using the project funding supervised by a manager who will split their time between council tax and business rates arrears work. The estimated project cost over the period is £210,000. Funding for a separate project to tackle council tax arrears was approved in DD2057.
- 1.5 The project would run from 1 February 2017 to 31 March 2018 – i.e. 2 months in 2016-17 when the GLA's share of locally retained rates would be 40 per cent (i.e. 20 per cent of 50 per cent) and 12 months in 2017-18 when the GLA's share of locally retained rates would be 55 per cent (i.e. 37 per cent of 67 per cent). It has been agreed that the GLA and Islington will share the project costs equally. The GLA's contribution would therefore be up to £105,000 in line with this 50 per cent share with Islington also contributing the same share. It is estimated that up to £15,000 would be payable in 2016-17 with the balance of £90,000 payable by the GLA in 2017-18.

- 1.6 The targeted reduction in arrears in the first year of the project is £800,000 of which an estimated £300,000 would accrue to the GLA if the sums are recovered post 1 April 2017 when the GLA's share of business rates increases from 20% to 37%. Subject to the success of the project the GLA will consider extending it for a further 12 months as following the introduction of 100% retention by 2019-20 the benefits to both parties will be greater and as the team becomes more experienced the project gains should increase relative to the level of investment.
- 1.7 This is a legitimate request 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 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. Without this funding the GLA would make no contribution directly towards collecting and enforcing the £99 million it is forecast to receive in business rates income from Islington in 2017-18.
- 1.8 Any additional rates income recovered 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 2018-19 financial year and subsequently. This will include any backdated sums due for prior years in addition to sums collectable for 2016-17 and 2017-18.

Objectives and expected outcomes

- 2.1 The proposed project focuses on reducing Islington's current level of business rates arrears which exceeded £15 million at 1 April 2016.
- 2.2 The team created will use appropriate tracing tools to contact debtors and maximise collection through telephone and SMS contact including:
- Identifying debts outstanding through software system reports focusing on persistent debtors, absconders, those who had failed to make payments for a period of time and property owners/landlords who would have sufficient assets to repay any sums owed.
 - Using desk top tracing tools to identify forwarding addresses and contact detailers for debtors
 - Pursuing debtors through a variety of contact methods
 - Negotiating arrangements for payments or settlement with debtors in compliance with council procedures
 - Ongoing monitoring of payments agreed including and recontacting those who default on agreed payment plans
- 2.3 The annual cost of the project team and related costs is estimated at around £210,000 – with the project funding being provided for a 14 month period. As the majority of the costs are staffing related the project costs can be predicted with relative certainty. Subject to Islington demonstrating that it had made significant progress towards delivering a reduction in arrears – with an interim review following the end of the 2016-17 financial year – the GLA would have the option to continue funding the project for a second year (i.e. April 2018 to March 2019).
- 2.4 Billing authorities do not receive discrete funding from government grant to assist in maximising the levels of council tax income and collection. Without the GLA's support the borough would be required to pay 100% of the cost of this project but only receive 30 per cent of the additional income which results. It is therefore perfectly legitimate that the GLA makes a contribution towards the project in proportion to the benefits it will receive.

2.5 In summary therefore

- The GLA will contribute up to £105,000 of the proposed £210,000 cost of the project team with Islington contributing the remaining £105,000
- The team will be set a target to collect £800,000 of outstanding arrears and ensure that in year arrears are minimised.

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 Islington 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 is intended to self financing with any up front costs being offset by additional non domestic rating income generated. There is a marginal risk that the Council will fail to deliver a reduction in arrears due to the project but the payment of the GLA's funding will be conditional on the Council demonstrating improved performance in this area.

5. Financial comments

- 5.1 In 2016-17 the GLA is forecast to receive an estimated £38.5 million from the London Borough of Islington under the business rates retention scheme and a further £5.8 million through the Crossrail Business Rate Supplement. These sums are forecast rise to £99.0 million and £8.9 million respectively in 2017-18.
- 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% currently rising to 37 per cent from April 2017 in respect of the former and 100% in respect of the latter) 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 to contribute 50 per cent of the costs of a project to tackle business rates arrears in line with its average share of locally retained business rates over the project's life. The estimated total cost of the arrears reduction project would be approximately £210,000 with payments made in arrears. The GLA would contribute up to £105,000 over the project lifetime – with up to £15,000 payable in 2016-17 and £90,000 in 2017-18. The GLA has agreed a target with Islington to reduce arrears by at least £800,000 in year one of the project. The agreed contribution equates to less than 2 per cent of the GLA's expected £5.6 million share of the existing NNDR arrears in Islington at 1 April 2017. These costs would be charged initially to the Business Rates Reserve with the gains recovered through collection fund surpluses paid over to the GLA in future years.
- 5.4 In Mayoral Decision 1553 the Mayor agreed that the GLA should support borough business rates income 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 Islington 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 will receive 37 per cent of any additional revenues collected – equating to 55% of the locally retained share – from April 2017. 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 Islington 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	Not applicable
Appointment of team	Early 2017
Delivery Start Date	February 2017
Interim evaluation of progress and submission of funding claim for 2016-17	April 2017
Delivery End Date and submission of final claim	March 2018
Project Closure – albeit GLA and LB Islington would have the ability to extend it for a further 12 months by mutual agreement.	March 2018
Activity	Timeline
Procurement of contract	Not applicable
Announcement	Not applicable

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 13 March 2017.

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

14.3.17