GREATER**LONDON**AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2177

Title: Funding to Maximise Business Rates and Council Tax Income

Executive Summary:

In 2017-18 the 32 London boroughs and the Corporation of London will collect over £4.1 billion of revenues on behalf of the GLA - £3.0 billion from non domestic ratepayers through the business rates retention system, £805 million from council tax payers through the Mayor's precept and £275 million through the Crossrail Business Rate Supplement. The GLA therefore has a direct incentive to support initiatives which seek to maximise business rates and council tax income.

In Mayoral Decision 1553 it was agreed that the GLA should support borough business rates maximisation and council tax 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 revenues on an ongoing basis. To date one off support has been provided of up to £2.3 million for such projects which are forecast to generate ongoing revenues of over £8 million per annum. Beyond these projects the GLA provides no direct contributions to support borough revenues collection work.

There are over 300,000 non domestic and 3.5 million domestic properties in the capital. Property inspectors are employed by local authorities to inspect new and existing domestic and non domestic properties to ensure they are accurately recorded on the valuation list, to verify via on site visits they are eligible for any discounts and reliefs being claimed and to liaise with Valuation Office Agency and billing authority staff to action any changes required when properties are newly constructed or redeveloped. This decision seeks funding to support and enhance the property inspection functions of the 33 London billing authorities in order to maximise the GLA's business rates and council tax revenues. The GLA's contribution annually will be equivalent to co-funding up to 3 inspectors per borough pro rata with the investment expected to be fully offset by the additional council tax and business rates income generated.

Decision:

That the Mayor approves up to £50,000 per billing authority in 2017-18 (equivalent to up to £1.7 million) and up to £75,000 in both 2018-19 and 2019-20 (up to £2.5 million in total) to enhance the property inspection functions in the 33 London billing authorities. It is anticipated that these costs will be recovered in full through the additional council tax and business rates income generated.

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: 26/10/17

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

Decision required – supporting report

1. Introduction and background

1.1 In 2017-18 the GLA is forecast to receive £4.1 billion in revenues through council tax and business rates from the 33 London billing authorities - the Corporation of London and the 32 London boroughs.

1.2 The largest element of this is the £3.0 billion of income through the business rates retention scheme from the estimated 301,000 non domestic ratepayers in London – equivalent to 37% of the total tax take and 55% of the share of revenues retained locally under the business rates retention system. The GLA also receives £805 million through the Mayor's council tax precept on the 3.5 million domestic properties in London. A further £275 million – 100% of the tax take – will be received in respect of the Mayor's Business Rate Supplement on around 45,000 larger ratepayers which is applied to finance and repay the GLA's £3.2 billion of outstanding Crossrail debt.

1.3 Any net growth in the business rates and council tax base each year accrues to the GLA in proportion to its share of the tax take. This benefit is expected to increase as the GLA and London Councils are working together to deliver a pilot to deliver 100% business rates retention in London from April 2018. The GLA therefore has a direct and increasing incentive to support initiatives which seek to maximise business rates and council tax income in London.

1.4 The 33 London billing authorities have a statutory duty to collect business rates under the Local Government Finance Act 1988, council tax under the Local Government Finance Act 1992 and Business Rate Supplement revenues for the GLA under the Business Rate Supplements Act 2009. They currently receive limited notional Government support to deliver their responsibilities in respect of council tax through the local government finance settlement – resources which have declined substantially in real terms since 2010. A collection allowance is available in respect of their business rates collection and enforcement functions but this was not increased to reflect the additional burdens which arose following the introduction of local business rates retention in April 2013. Billing authorities also receive a limited allowance set by regulations for collecting the Crossrail Business Rate Supplement – however, for some authorities this is less than £3,000 in total. It is estimated that the 33 billing authorities' collective annual net costs in respect of local tax collection after available collection allowances are estimated at just under £50 million – which the GLA has historically made no formal contribution towards.

1.5 Since the Enterprise and Regulatory Reform Act 2013 and the related reforms to the business rates appeals system were introduced from 1 April 2017 local authorities are now expected to play an even more active role in reporting changes to the layout or usage of existing properties and the construction of new properties to the Valuation Office Agency so that the non domestic rating and council tax valuation list is accurate and kept up to date. This burden on local authorities is likely to increase due to resource pressures at the Valuation Office Agency which is expected to lose nearly one third of its staff by 2021 – equivalent to around 1,000 full time posts - as a result of a reduction in its funding from HM Treasury.

1.6 Since the introduction of the local business rates retention scheme in 2013-14 the GLA has entered into more than 20 business rates income maximisation projects with 18 different boroughs focusing on reducing business rates arrears and identifying assessments undervalued or omitted from the local rating list. Over the next five years for a one off investment of up to £1.8 million the GLA would expect to receive cumulative additional business rates revenues of over £40 million as a result. The GLA has also entered projects with four London boroughs focusing on reducing the level of council tax arrears and with one borough on tackling business rates arrears. The total cost of these arrears projects is £2.1 million of which the GLA's contribution is up to £0.5 million in line with its relative share of the Band D council tax locally. The targeted reduction in arrears for these projects is £6.6 million of which the GLA's share is around £1.5 million.

1.7 As these projects highlight there are significant benefits financially for the GLA in supporting projects which focus on maximising both business rates and council tax income which are substantially in excess of the initial investment made. This Decision seeks specific support for mainstreaming these projects by proposing that the GLA contribute towards supporting and enhancing the property inspection functions of the 33 London billing authorities in order to maximise the GLA's business rates and council tax revenues.

2. Objectives and expected outcomes

2.1 Property inspectors are employed by local authorities to visit and inspect domestic properties and non domestic hereditaments to:

- ensure they are accurately included and valued on the local valuation list;
- identify assessments such as telecommunications networks, advertising rights and mobile phone masts which have been omitted from the valuation list;
- confirm they are being used for the purpose stated e.g. for commercial or residential purposes and in respect of the former the type of use;
- ensure the redevelopment, refurbishment, extension and/or reconstitution of properties is correctly recorded and reported;
- provide an initial point of contact and advice for council taxpayers on low incomes who may be eligible for council tax support or other exemptions and discounts to promote take up:
- advise business ratepayers of their eligibility for any reliefs they may be entitled to – for example small business rate relief;
- confirm that the property and/or taxpayer is eligible for any discounts, reliefs and exemptions being claimed in order to reduce fraud and tackle avoidance; and
- interview business ratepayers or council taxpayers in arrears or in default with a view to making payment arrangements, offering advice and collecting payments;

2.2 Following this work they will also be required to maintain accurate records on inspections undertaken and compile inspection reports as well as liaise with Valuation Office Agency and billing staff at the local authority to ensure any resulting changes required to the valuation list or tax liabilities are actioned.

2.3 The majority of London billing authorities already have at least one property inspector shared between council tax and business rates work although some have up to three in post. Subject to evaluating proposals from individual local authorities it is proposed that the GLA seek to part fund up to three inspectors per authority – including existing inspectors to ensure equity and consistency – although there would be scope to fund additional inspectors depending on local circumstances where there are already three in post. There have already been expressions of interest in contributing towards the cost of additional inspectors from seven London boroughs and it is anticipated that the majority would sign up once the GLA's funding support is confirmed. The project should therefore ensure that there is one inspector on average for every 115,000 properties on the council tax and rating list in London.

2.4 It is estimated that the typical salary for an inspector in London is up to £50,000 including on costs and other incidental expenses although this varies between outer and inner London. If it is assumed that a typical inspector will devote two thirds of their time to business rates and one third to council tax cases £33,000 of their costs would relate to the former and £17,000 to the latter. Assuming the GLA bears 55 per cent of the cost of any business rates work (in line with the GLA's locally retained share in 2017-18) and 25 per cent of the costs of council tax work reflecting the relative benefit each authority will receive from any additional income generated in each case the GLA's proposed contribution per inspector would equate to £22,500 - or £67,500 for three inspectors. Applying a 10 per cent contingency results in an estimated full year annual cost to the GLA of around £75,000 – or a maximum of £2.5 million across the 33 billing authorities per annum.

2.5 As the project will not commence until October 2017 – half way through the 2017-18 financial year – it is assumed that the GLA would typically contribute a maximum of £50,000 pro rata per authority or £1.7 million in 2017-18. This is on the assumption that up to two inspectors would be supported for the entire financial year with third position supported for a maximum of six months. In practice it is unlikely that the full allocation for 2017-18 will be required but it is considered prudent to budget for this level of draw down.

2.6 For 2018-19 and 2019-20 the full annual cost of up to £75,000 per authority would apply although this could vary should the GLA share of locally retained business rates change compared to 2017-18. Should the London 100 per cent retention business rates pilot by implemented from April 2018 the share of businesses rates London billing authorities retain will increase, for example, from the current 30 per cent figure to between 50 and 65 per cent with the GLA retaining between 35 per cent and 50 per cent.

2.7 In the event that the GLA's share of locally retained rates decreased to 50 per cent it is anticipated the GLA's contribution would decline from £75,000 per authority to £70,000. If its share decreased to 35 per cent then its contribution would decline by a further £15,000 to around £55,000. The precise split for 2018-19 is unlikely to be known until early 2018. The funding agreements with billing authorities will allow the GLA's contribution to be amended to reflect the relative changes in the locally retained shares of each tier in each financial year. Any such variation would be predicated on the basis that it did not place the inspection project at risk and therefore might provide for a transitional phasing in of any change in the GLA's level of support, in either direction.

2.8 It is proposed that the Mayor delegates authority to the Executive Director Resources to enter into agreements with London billing authorities to allocate the proposed funding and monitor its usage. Progress on implementation will be reported to the Chief of Staff, and as required to Corporate Investment Board. In drawing down their funding billing authorities will be required to certify that the expenditure has been incurred in line with the agreed purpose and provide appropriate performance data including the number of properties visited and/or assessed. This project will not preclude the GLA entering into other business rates maximisation projects where its contribution is directly proportional to the rateable value added to the rating list or to dedicated projects to tackle business rates or council tax arrears.

2.9 The outputs in each borough will be monitored by reference to number of business rates and council tax properties inspected and the growth in business rates and council tax income annually as measured through year on year changes in revenues – including collection fund surpluses and deficits – and in the business rates rateable value and council taxbase for the authority.

2.10 The proposal is a legitimate request for GLA support as billing authorities do not explicitly receive additional funding central government to fund the costs of business rates and council tax maximisation work including the recruitment of inspectors. Due to the impact of reductions in central government resources more generally it has become more difficult for boroughs to finance the cost of revenues collection work at a time when the need to maximise revenues has become increasingly important.

2.11 Without the GLA's support each authority would be required to pay 100% of the cost of its investment to maximise business rates but only receive 30% of the additional income with the remaining gains being apportioned between the GLA (37%) and the Secretary of State (33%) in 2017-18. Similarly, it would be required to pay 100% of the cost of its investment to maximise council tax income but only typically receive 75% of the additional income which results with the remaining gains accruing to the GLA.

2.12 The additional business rates and council tax income arising from the work of these inspectors in year would be transferred to the GLA in cash terms in the following financial year based on the collection fund surplus or deficit forecast prepared in January 2018, 2019 and 2020. These sums will then form part of the baseline business rates revenues and council taxbase in future years and any benefit will accrue to the GLA in line with its the percentage share applying in those years. Any gains in respect of BRS income would accrue within that financial year.

3. Equality comments

3.1 As public bodies, the GLA and the functional bodies must comply with section 149 of the Equality Act 2010, which provides for the "public sector equality duty". This duty requires each body to have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, to advance equality of opportunity, and to foster good relations between people who share a protected characteristic and those who do not. The protected characteristics covered by section 149 are: age; disability; gender reassignment; pregnancy and maternity; race; sex; religion or belief; and sexual orientation. Observance of the duty may involve, in particular, removing or minimising any disadvantage suffered by those who share a relevant protected characteristic, taking steps to meet the needs of such people and encouraging them to participate in public life or in any other activity where their participation is disproportionately low, including tackling prejudice and promoting understanding. In limited circumstances, this may involve treating people with a protected characteristic more favourably than those without the characteristic.

3.2 There are no direct equality implications for the GLA as the property inspectors will be employed by billing authorities under their terms and conditions. In order to provide certainty and sustainability so that authorities can attract suitably qualified staff it is proposed that funding be provided for the current and subsequent two financial years. Each authority as a public body will be expected to have regard to appropriate equality considerations under the Equality Act 2010.

4. Other considerations

Links to Mayoral Strategies and Priorities

4.1 In 2018-19 the GLA will allocate over £1.84 billion to Transport for London, £622 million to MOPAC, £382 million to LFEPA, £365 million to the GLA and Assembly, £17 million to the LLDC and £4 million to the OPDC from Council tax, business rates and business rates supplement income. It will also pay the Government £720 million as a tariff from its share of business rates revenues to support local services in the rest of England. Maximising business rates and council tax income is therefore critical to ensuring that the Mayor's strategies and priorities can be delivered.

Key Risks

4.2 There are no further implications for risk management as the inspectors recruited will be employed directly by billing authorities on their terms and conditions. The success of the project would be reviewed in 2019 to determine whether the GLA would continue to provide support in 2020-21.

5. Financial comments

5.1 Each of the 33 London billing authorities collect non domestic rates, council tax and Crossrail Business Rate supplement revenues on behalf of the GLA in respect of its relevant share (37% - or 55% of the local share -, 25% on average and 100% respectively in 2017-18) but do not receive discrete additional funding from the Government to support work which maximises the size of the local domestic and non domestic rating list.

5.2 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 valuations – particularly where new properties are constructed or redeveloped - and ensure that ratepayers and council taxpayers are eligible for any reliefs, discounts or exemptions they are claiming.

5.3 This project would see the GLA contributing towards the costs of supporting existing and new inspection staff – typically one existing and up to two new staff – in proportion to the financial benefit it receives with the relevant billing authority funding the balance. The total estimated cost of the project is up to £1.7 million in 2017-18 and up to £2.5 million in both 2018-19 and 2019-20. These are maximum budgeted contributions and if not all billing authorities wish to opt in to the project the total costs will be less. These sums equate to less than 0.06 per cent of the revenues the GLA is expected to receive in council tax, business rates and BRS over the three years of the project. Based on previous experience, it is anticipated, however, that the additional revenues generated from the additional inspection resource will exceed the proposed investment several times over.

5.4 It is proposed that the costs of the project be charged to the Mayor's business rates reserve which is used to manage volatility and surpluses and deficits in council tax and business rates income.

6. Legal comments

6.1 The 32 London Boroughs and the Corporation of London are the billing authorities for non-domestic rates in the GLA 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 in section 1 that billing authorities do not receive discrete funding from government grant to assist in maximising the size of the rating list as their collection allowance is specifically for collection and enforcement purposes.

6.2 The GLA is also a major precepting authority under section 39 of the Local Government Finance Act 1992, as amended by section 82 of the Greater London Authority Act 1999 (the GLA Act), and issues precepts to billing authorities in Greater London, in respect of council tax. It is noted in section 1 of this paper that billing authorities incur costs of around £50 million in respect of their statutory council tax collection and enforcement responsibilities, and that the GLA makes no direct contribution towards these costs at present. It is further noted that the GLA has an interest in maximising income from council tax, business rates and business rates supplement, because it stands to recover substantial proportions of each.

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, business rates supplement and council tax income for the GLA is therefore within the power of the GLA.

6.4 Any formal agreement with a billing authority should be consistent with the GLA's standard agreement format and should be approved by the Commercial law team.

7. Planned delivery approach and next steps

Agreements entered into with London boroughs	Autumn 2017
Delivery start date	Autumn 2017
Review of delivery for first 18 months of the project and subject to this confirmation of funding 2020-21	March 2019
Project Closure should it be decided not to extend funding into 2020-21	March 2020
Delivery End Date and submission of final claims	July 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 the following:	✓
Sponsoring Director: Martin Clarke, Executive Director Resources has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.	✓
Mayoral Adviser: David Bellamy, Chief of Staff has been consulted about the proposal and agrees the recommendations.	✓
Advice: The Finance and Legal teams have commented on this proposal. The proposal originates from Finance.	✓
Corporate Investment Board This decision was agreed by the Corporate Investment Board on 16 October 2017	

EXECUTIVE DIRECTOR, RESOURCES:
I confirm that financial and legal implications have been appropriately considered in the preparation of this report.
Signature M. D. Clarke **Date** 16.10.17

CHIEF OF STAFF:
I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature D. Bellamy **Date** 16/10/2017