

# GREATER LONDON AUTHORITY

## REQUEST FOR DIRECTOR DECISION – DD2218

### **Title: To Extend Funding for a Project to Maximise Business Rates Income In the London Borough of Brent**

#### **Executive Summary:**

Under the business rates retention scheme applying in 2017-18 the GLA will receive 37 per cent of all business rates income – 55 per cent of the locally retained share - collectable by the 33 London billing authorities and benefits proportionately from any real terms incremental growth in the taxbase. This year the GLA is forecast to receive an estimated £45.4 million from the London Borough of Brent (LB Brent) under the business rates retention scheme and a further £3.3 million through the separate Crossrail Business Rate Supplement (BRS).

The Borough Council has approached the GLA to extend the funding for business rates income maximisation project approved in Directors Decision 1541 covering 2015-16 and 2016-17 into 2017-18 and 2018-19. This work will seek to identify assessments by rateable value which have been omitted from or are undervalued in the rating list and any contribution made by the GLA is proportional to and conditional on additional business rates revenues being generated. For a one off investment of around £160,000 by the GLA the previous approved project has generated additional rateable value of £5.3 million and ongoing annual net business rates growth for the GLA of just under £950,000.

This project seeks funding of up to £145,000 covering the 2017-18 and 2018-19 financial years with the GLA contributing 55 per cent of the costs in the first year and 36 per cent in the second. This funding is conditional on additional business rates revenues being generated. If the funding was fully applied the project would generate up to £1.9 million of additional ongoing business rates income of which just over £0.7 million would accrue to the GLA.

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.

#### **Decision:**

The Executive Director Resources approves:

up to £145,000 as a contribution towards a project by the London Borough of Brent to increase business rates income locally across the 2017-18 and 2018-19 financial years. The actual contribution will be proportional to the rateable value added to the borough's local non domestic rating list by the Valuation Office Agency arising directly from the project.

#### **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:** 19.2.18

## **PART I - NON-CONFIDENTIAL FACTS AND ADVICE**

### **Decision required – supporting report**

#### **1. Introduction and background**

- 1.1 Under the business rates retention scheme the GLA currently receives 37 per cent of all business rates income – 55 per cent of the locally retained share - collectable by the 33 London billing authorities and benefits proportionately from any real terms incremental growth in the taxbase. This share will change to 36 per cent in 2018-19 following the introduction of the London business rates pool. In 2017-18 the GLA is forecast to receive an estimated £45.4 million from the London Borough of Brent (LB Brent) under the business rates retention scheme and a further £3.3 million through the separate Crossrail Business Rate Supplement (BRS).
- 1.2 In 2015-16 and 2016-17 the GLA financed 40 per cent of the costs of a business rates maximisation project commissioned by the Borough Council which identified hereditaments which were either omitted from or undervalued on the rating list. This was approved in Directors Decision 1541. 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.
- 1.3 The GLA contributed £160,000 to the project with Brent financing the balance of £240,000 in line with the respective 40 per cent to 60 per cent local retention shares in 2015-16. This project identified approximately £5.3 million of rateable value which was added to the borough's local rating list generating just under £2.6 of ongoing annual rates income. Based on its current share just under £950,000 of this has accrued to the GLA in 2017-18. So for a one off investment of £160,000 the GLA will secure up to £xxx,000 of additional rates income over the next five years in real terms – nearly thirty times the original investment. This demonstrates that such projects have a track record of success.
- 1.4 The London Borough of Brent has asked the Greater London to make a contribution towards a further project covering the 2017-18 and 2018-19 financial years. This will again 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.
- 1.5 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 employed. The finder's 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 on the assessments affected.
- 1.6 The aggregate sums payable by Brent to its contractor will be 7.5 per cent of the rateable value uplift made to the rating list as a result of the project work – of which 55 per cent would be payable by the GLA in 2017-18 and 36 per cent in 2018-19 reflecting its relative share of locally retained business rates in each year. It is currently anticipated that £120,000 would be payable in respect of 2017-18 and £25,000 in respect of 2018-19 by the GLA. The precise timings of any payments will be dependent on when the related adjustments are made by the Valuation Office Agency to the non-domestic rating list and any contributions will be directly proportional to the rateable value generated. If no additional rateable value and thus no additional rates income were to be generated the cost to the GLA would be nil.

- 1.7 Should the approved sums be applied in full it is forecast that the amendments to the rating list resulting from the project will deliver an uplift of up to in rateable value of up to £3.9 million which potentially would deliver an estimated £1.8 million of ongoing additional income based on the 2017-18 NNDR multiplier of which around £0.7 would accrue to the GLA. Over five years therefore for a one off investment of up to £145,000 the GLA would potentially secure additional rates income of close to £3.5 million based on its currently locally retained share.
- 1.7 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 net cost to it should the project not deliver additional rates income.
- 1.8 Brent 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 per cent of the cost of its rates maximisation projects but only receive 30 per cent of the additional income which results in 2017-18 and 64 per cent – subject to any sums required to be paid over to the London pool – in 2018-19.
- 1.9 Any additional rateable value added to the rating list would be transferred to the GLA initially in cash terms either during 2018-19 or 2019-20 through the annual collection fund surplus or deficit. 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 applicable share on an ongoing basis.

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

- 2.1 LB Brent 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 interrogation tool used by the contractor seeks to identify assessments either omitted from the non domestic rating list entirely or undervalued. 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 Under the terms of the agreement between Brent and its contractor the latter would receive up to 7.5 per cent of the additional rateable value identified as a one off payment after it is confirmed that these assessments/amendments have been adjusted on the Valuation List. If the assessments added or amendments made to existing valuations were subsequently reduced or removed following a successful rating appeal the payment to the contractor would be recoverable on a pro rata basis. This repayment would not apply where any subsequent amendments to the rating list are made as a result of a change in circumstance relating to the assessments concerned.
- 2.5 In light of the shared benefits Brent has requested that the GLA contribute 55 per cent of the cost of the one off payment to the contractor up to a maximum in 2017-18 and 36 per cent in 2018-19 i.e. the GLA locally retention share under the business rates retention scheme. 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.

## 2.6 In summary therefore

- The contractors will identify additional rateable value which could be added to the rating list in Brent – for which they would receive a total payment equating to 7.5 per cent of the rateable value identified. Of this the GLA would contribute up to £120,000 in 2017-18 (i.e. 55 per cent of the total contractor payments estimated at up to £220,000) and £25,000 in 2018-18 (i.e. 36 per cent of the total contractor payments estimated at up to £70,000) 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;
- Based on the maximum one off maximum £145,000 contribution estimated additional rates income of up to £1.8 million per annum is expected to be generated of which around £0.7 million would accrue to the GLA on an ongoing basis. Allowing for inflation in the NNDR multiplier up to £3.5 million of additional income would be expected to be secured over five years for the GLA in line with its 37 per cent share for a maximum investment of £145,000;
- Potentially additional Crossrail BRS income could also be generated annually up to a maximum of £75,000 (i.e. 2 per cent of the maximum £3.9 million rateable value expected to be added to the list) – assuming the assessments affected have rateable values above the qualifying threshold of £70,000.

## 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 in addition to those working for the contractor 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. This is due to the fact that the GLA receives 37 per cent of any rateable value growth in 2017-18 and 36 per cent in 2018-19 but is only required to make a one off contribution to the contractor via LB Brent equivalent to a maximum averaging 3.5 per cent of any rateable value uplift made to the rating list. If no net additional non domestic rating is generated through additions or uplifts to the local rating list made by the Valuation Office no payment will be made. Any sums paid to LB Brent are recoverable on a pro rata basis in certain circumstances where the amendments made to the rating list are not sustained. This is on the basis, as the GLA has been advised, that LB Brent' agreement with its contractor includes a recovery mechanism in such circumstances.
- 4.2 There is a marginal risk if the occupiers of the properties added to or amended on the rating list become eligible for rates relief the increase in rates income could be lower than forecast. Overall however these risks are considered marginal compared to the potential gains.

## **5. Financial comments**

- 5.1 In 2017-18 the GLA is forecast to receive an estimated £45.4 million from the London Borough of Brent (LB Brent) under the business rates retention scheme and a further £3.3 million through the separate Crossrail Business Rate Supplement (BRS).
- 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 (37 per cent and 100 per cent 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 55 per cent of the costs of a proposed rates maximisation project in 2017-18 and 36 per cent in 2018-19 in line with share of locally retained income reflecting the fact that the Government does not contribute to the project in respect of its centrally held share in 2017-18. Its contribution is conditional on the omitted/undervalued hereditaments being amended on the rating list by the Valuation Office Agency.
- 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 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 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 37 per cent of any additional revenues collected in 2017-18 and an estimated 36 per cent in 2018-19. 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 Brent 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	Procured under project agreed in DD1541
Confirmation of assessments omitted from or undervalued in rating list	By March 2019 as target date but this could be extended.
Negotiations to add assessments to rating list with Valuation Office	By March 2019 as target date but this could be extended.
Payment made by LB Brent to contractor and by GLA to LB Brent based on its agreed share	Expected in full by March 2019 – no payment is triggered until rating list uplift/amendments are made by the Valuation Office Agency
Amendments made by Valuation Office to non domestic rating list – resulting in adjustments to ratepayer bills	Expected by March 2019 but could be later
Earliest date by which revenues would start to be received by GLA as a result of uplift in cash terms to 2018-19 instalments through the estimated collection fund surplus/deficit for LB Brent in respect of 2017-18 calculated in January 2018	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 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 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 19 February 2018.

**EXECUTIVE DIRECTOR, RESOURCES:**

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

Signature

*M. J. Gallie*

Date

*19.2.18*

