



Report for: Cabinet

Date of Meeting:	24 January 2024
Subject:	Calculation of Business Rates Tax Base for 2024-2025
Key Decision:	Yes
Responsible Officer:	Sharon Daniels – Interim Director of Finance & Assurance
Portfolio Holder:	Councillor David Ashton – Portfolio Holder for Finance and Human Resources
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All Wards
Enclosures:	Appendix 1 2024-25 Retail Relief Scheme & Appendix 2 2024-25 Harrow Supporting Small Businesses Relief Scheme

Section 1 – Summary and Recommendations

1.1 The Local Government Finance Act 1988 places a duty on the authority to calculate the business rates for the area annually as part of its budget setting process.

1.2 This report estimates the business rates yield for 2024-2025, of which the Council is allowed to retain an element described in more detail below. This element forms an important part of budget setting for the coming financial year.

1.3 Regulations require billing authorities to formally calculate the estimated level of non-domestic rates (NDR) it anticipates to collect for 2024-2025 and pass this information to the Secretary of State and precepting authorities by 31 January in the preceding financial year.

1.4 Harrow's share is 30% with central government's share being 33%, and the GLA 37%.

Recommendations:

That:

- (a) the approach and assumptions for the calculation of the Council's business rates yield as set out in this report be noted.
- (b) in accordance with the Non-Domestic Rating (Rates Retention) Regulations 2013, the amount calculated by the London Borough of Harrow as its business rates yield for the year 2024-2025 shall be **£13.221m** as shown in the table below be agreed.

		£m
	Projected NDR Income 2024/25	44.071
Less	Payable to DLUHC (33% Central Share)	(14.544)
Less	Payable to the Greater London Authority (37%)	(16.306)
Equals	Amount to be retained by Harrow (30%)	13.221
Add	Section 31 Grant	5.220
	Total	18.441

- (c) the Council's Chief Finance Officer (section 151 officer), following consultation with the Portfolio Holder for Finance and Resources, be authorised to submit the notification of the calculation of the estimated Non-Domestic Rates income to the Secretary of State and GLA, or revised figures (from those above) if further clarification is received from the Department for Levelling Up, Housing & Communities (DLUHC) on the financial impact of the proposed changes to the authority and how this is to be calculated.
- (d) the Council's Chief Finance Officer (section 151 officer), following consultation with the Portfolio Holder for Finance and Resources, be authorised to implement the announced Autumn Budget business rates measures, namely potential new or adjusted reliefs as may be described once the detail is known.
- (e) the attached policies set out in Appendices 1 & 2 be agreed and delegated authority be given to the Chief Finance Officer to implement these and to make minor changes to them as needed.

Reason:

To fulfil the Council's statutory obligation to provide estimates and calculations in relation to NDR for 2024-2025.

Section 2 – Report

Introduction

- 2.1 The Local Government Finance Act 2012 introduced the Business Rate Retention (BRR) scheme from 01 April 2013.
- 2.2 The statutory framework requires a billing authority, before the beginning of a financial year, to forecast the amount of business rates that it will collect during the course of the year and, from this, to make a number of allowable deductions in order to arrive at a figure for its non-domestic rating income. The calculation that Harrow makes before the start of the financial year determines how much Harrow must pay to central government and its major precepting authorities during the course of the year.

Background

- 2.3 Under the Local Government Finance Act 1988, as amended by the Local Government Finance Act 2012, regulations set out detailed formulae for the calculation of an annual estimated Business Rates. The starting point is the amount payable by businesses to the authority under s.43 and 45 of the 1988 Act in the preceding year. An estimate is then calculated taking into account adjustments for RPI / CPI, transitional protection payments, collection costs and disregarded amounts. At the end of each year the authority must arrange for calculations and amounts to be certified in accordance with arrangements set out by the Secretary of State.
- 2.4 Income raised will, for the financial year 2024/25, be allocated as follows; Harrow retains 30%, the GLA retains 37%, and the Department for Levelling Up, Housing & Communities (DLUHC) retains the balance, 33%.

Throughout the year, the authority retains a fixed amount and pays a fixed amount to preceptors. Any difference between forecast amounts and final outturns will result in a surplus, or deficit on the billing authority's Collection Fund. Any such surplus or deficit is shared between the parties to the Pool and has to be taken into account as part of the future year's budget process.

2.5 Options

As the setting of the retention amount is a statutory requirement, there are no alternative options. Additionally the authority is expected to apply rate relief schemes as they are issued by Central Government.

Harrow's National Non-Domestic Rates (NDR) retained amount for 2024/25

- 2.6 The forecast in this report takes into account the latest data available including an estimate of likely reliefs, reductions due to appeals and an estimate of likely losses due to some debts being uncollectable.
- 2.7 The forecast is required to be formally notified to DLUHC and preceptors. This is done by billing authorities having to complete a DLUHC business rates return estimating the likely business rates. The return takes the form of a formal National Non-Domestic rates return 1 (NDR1) and uses the data used for the Council's Business Rates Tax Base estimate.
- 2.8 The calculation of Harrow's NDR income figure for 2024/25 and for the formal outturn is therefore as follows;

Gross Rates Yield: Total Rateable value x NDR rate multiplier
Less Mandatory Reliefs
Less Discretionary Reliefs
Less estimated losses on Collection
Less Allowance for costs of collection (as set by DLUHC formula)
Plus or Minus Rate Retention Adjustments for: Change in Rateable Value due to growth or reduction in property numbers Adjustment due to Appeals
Net Business Rates Yield and base of the calculation of central and local shares

Projected NDR Income calculation for 2024/25

Using current year data (2023 List @ 01/12/2023)

	£m		
Gross Rateable value - Rating List 2023 list	144,745,167	a	
Small Business Rate Multiplier 2023/24	0.499	b	
Inflation Assumption / CPI @ Sept 2023	0.00%	c	
Assumed Small Business Rate Multiplier 2024/25	0.499	d	b x c(+b)
Notional gross yield figure	72,227,838	e	a x d
Less In year RV fluctuations - 1.00%	0		
Expected Notional gross yield figure	72,227,838	e	
Losses due to Small business rate relief	5,961,099	f	
Change in notional gross yield	0.00%	g	
Projected small business rate relief 2024/25	5,961,099	h	f x g
Losses due to Empty property exemptions	1,518,068	i	
Change in notional gross yield	0.00%	j	
Projected Empty property exemptions 2024/25	1,518,068	k	i x j
Losses due to Mandatory relief	7,266,968	l	
Change in notional gross yield	0.00%	m	
Projected Mandatory Relief 2024/25	7,266,968	n	l x m
Losses due to Discretionary relief	41,000	o	
Change in notional gross yield	0.00%	p	
Projected Discretionary Relief 2024/25	41,000	q	o x p
Additional Yield generated from SBR supplement	-2,000,000		
Less Cost of collection	242,610		
	-1,757,390	r	
Projected contribution to the pool	59,198,093	s	e-h-k-n-q-r
Losses in collection 2%	1,183,962	t	
Losses due to appeals	2,500,000	u	
Losses due to Enterprise Zones	0	v	
Gain due to Renewable Energy schemes	0	w	
Gain due to New Developments	0	x	
Net Transitional relief (gain) - IGNORE	0	y	
Net contribution to the pool	55,514,131	z	s- t-u-v-w-x
Less Other Reductions - DCLG S31 Initiative 1 Retail Relief	10,404,328		
Less Other Reductions - DCLG S31 Initiative 2 SSBR	1,038,299		
Contribution to pool	44,071,504		
Less Central Share (33% to Government)	-14,543,596		
Less GLA Transport (37%)	-16,306,457		
NDR Income retained = 30%	13,221,451		

Add estimated s31 Grant re Reliefs initiatives *	<u>£5,220,000</u> **
Overall Retention & s31 Grant	18,441,451

* DLUHC has frozen the small business rates multiplier only re 2024/25.

** Section 31 grants are given to LA's to compensate them for non-statutory rate relief schemes that DLUHC imposes on Councils. It is therefore imperative that the two are monitored together to ensure the overall quantum from the 2 income streams remains static. The quoted cumulative amounts feed into the budget process.

Reasons for a Lower / Higher Retention Amount in 2024/25

2.9 Historically, rateable value generally reduces annually in Harrow, this being a trend that has existed locally for several years and one that is likely to continue. This is because Harrow's tax base is suffering losses which are not being offset by growth.

2.10 The reasons for the changes in yield are mainly:

- Tax Base is being eroded by commercial property being converted to domestic accommodation or being demolished and awaiting domestic properties being built
- More occupiers claiming Small Business Rates Relief (SBRR) and Retail Relief
- More occupiers claiming 80% mandatory charitable relief (eg school Academies')
- Insufficient new commercial properties being built to offset losses, &
- Collection rates being impacted by the current recession.

2.11 The tax base used to calculate the 2024/25 rate retention amounts has this year partially benefited from the September 2023 CPI inflationary increase which is used to calculate the following financial year's rating multiplier. This is because DLUHC, has for 2024/25, applied the 6.7% CPI increase to the standard multiplier only, which will now be £0.546p, but did not apply inflation to the small business multiplier, which remains at £0.499p for the financial year 2024/25. The latter will apply to approximately 5042 out of 5526 commercial properties (only 484 properties being subjected to the standard multiplier).

Implementation of Further reliefs for the period 1/4/24 to 31/3/25 and further financial years, as announced in the Autumn Budget

2.12 At the Autumn statement on the 22 November, Government announced an extension of the following reliefs to support businesses, namely;

1. An extension of the 75% retail relief scheme for eligible retail, hospitality and leisure properties for 2024/25 financial year only on rates bills up to £110,000 per business

2. A continuation of the Supporting Small Business Relief scheme for 2024/25 financial year which will cap bill increases at £600 per year for any business losing eligibility for some or all, of its Small Business Rate Relief (SBRR) due to the 2023 revaluation.
3. A freezing of the small business rates multiplier only (which remains at 49.9p) and an increase by CPI (6.7%) of the standard multiplier to 54.6p.

2.13 Harrow Council will be expected to use its discretionary relief powers (under section 47 of the Local Government Finance Act 1988 as amended) to grant the discounts set out in points 1 & 2 above, in line with the relevant eligibility criteria. No new legislation will be required to deliver the scheme but revised policies are attached in Appendix 1 & 2 for approval.

2.14 Regulation 16 of The Non-Domestic Rating (Consequential and Other Amendments etc.) (England) Regulations 2023 (SI 1251 of 2023) will revoke the Non-Domestic Rating (Discretionary Relief) Regulations 1989 (SI 1050 of 1989). This means that from 1st April 2024 the discretion, including the policy for backdating requests, for all Discretionary Rate Relief, falls under local authority determination. This is effective for Discretionary Rate Reliefs awarded from 1st April 2023.

The current Discretionary Rate Reliefs available are:-

- Retail, Hospitality and Leisure
- Supporting Small Businesses Rate Relief
- Non-Profit Making Organisations
- Top- Up Rate Relief for Charities and Community Amateur Sports Clubs
- Business Rate Hardship Relief
- Heating Network Relief (to 31.3.2024 only)

Harrow is not intending on changing its policy regarding effective dates for discretionary reliefs but as a general rule any Discretionary Rate Relief applications will only be considered for the preceding financial year i.e., 1st April to 31st March, if the application is received on or before the 30th of September of the following year. However each case will be considered on its own merits and should there be exceptional extenuating circumstances, backdating beyond this date may be considered providing there is evidence of entitlement to the relevant discretionary rate relief.

2.15 The sequence in which the various reliefs must be applied are:

- Improvement Relief
- Transitional Relief
- Other mandatory Reliefs (as determined in legislation)
- S.47 Discretionary Relief in the following order:

- I. 2023 Supporting Small Business (SSB)
- II. Former categories of discretionary relief available prior to the Localism Act 2011 (i.e. charitable, CASC, not for profit) should be applied first in the sequence of discretionary reliefs, after SSB
- III. Other discretionary (centrally funded) including Freeport relief
- IV. 2024/25 Retail Hospitality and Leisure relief scheme
- V. Other locally funded schemes

- 2.16 Cabinet is therefore requested to authorise the Chief Finance Officer to implement the prescribed support for businesses, once full guidance is issued, including the amendment of the attached policies (if necessary) in line with guidance issued or to be issued in the future.
- 2.17 Central government will fully reimburse Harrow for the local share of the discretionary relief (using a grant under section 31 of the Local Government Act 2003). The Government expects local government to grant relief to qualifying ratepayers.

Legal Implications

Schedule 7B of the Local Government Finance Act 1988, as amended, reserves the right for the Secretary of State to direct billing authorities to make calculations and supply information and in the absence of such a direction, to make regulations imposing similar requirement.

The Government has set out the process for this in the Non-Domestic Rating (Rates Retention) Regulations 2013. The Regulations require that on or before 31 January in the preceding year, billing authorities must estimate the amount of NDR income, calculate the amount of the central share, calculate the amount for each precepting authority's share, estimate the amount of qualifying relief and notify the Secretary of State and relevant precepting authority of these estimates or calculations. This will be done via a form known as NNDR1.

In the absence of any specific statutory requirement, the Functions and Responsibilities Regulations 2000 provides guidance as to functions which can and cannot be dealt with by the Executive.

Under the Council's constitution, approving the budget (including setting the Council Tax) is reserved to full Council. Budget is defined as allocation of financial resources to different services and projects, proposed contingency funds, setting the council tax including decisions relating to the control of the Council's borrowing requirement, the determination and control of its capital expenditure and the setting of virement limits. Calculating the business rates estimates is not part of this overall budget approval, although the estimate used will be taken into account when considering the Council's financial position. It is appropriate for this decision to be taken by Cabinet in the same way as the council tax base is a Cabinet decision.

Article 6 of the Council's Constitution states a key decision is an executive decision which:

- (i) is likely to result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budget for the service or function to which the decision relates; or
- (ii) is likely to be significant in terms of its effects on communities living or working in an area of two or more wards of the Borough.

A decision is significant for the purposes of (i) above if it involves expenditure or the making of savings of an amount in excess of £1m for capital expenditure or £500,000 for revenue expenditure or, where expenditure or savings are less than the amounts specified above, they constitute more than 50% of the budget attributable to the service in question.

Financial Implications

The Local Government Finance Act 1992, as amended by the LGFA 2003 & LGFA 2012, requires the local authority to set a council tax sufficient to meet its expenditure by taking into account other sources of income such as government grants and non-domestic rates. The business rate outturn has a direct bearing on the Council's budget and the Council Tax set for 2024-2025. The approval of the business rates yield is therefore a key action in ensuring the Council meets its statutory duty to balance its budgets.

The retained amount for Harrow regarding Business Rates is therefore determined to be **£13.221m** which is 30% of the estimated business rates to be retained. Together with the estimated s31 grant, the figure aligns with the draft budget figure of **£18.441m** retained income. This estimated NDR income figures will become the actual NDR income for 2024/25 and will be used in setting the 2024/25 budget.

Collection rates have been lower than expected in 2023/24 but Harrow has provisions for bad debt to 31/3/24 of covering approximately 70% of current business rates arrears to 31/3/2023. As such, the tax base reflects current performance whilst building in over £1m for potential bad debt in 2024/25 should collection performance be further hampered by the current economic climate.

The estimated amount will be reflected in the Council's Final Revenue Budget for 2024-25. The actual NDR income received will not actually be available to the authority as it will go directly into the collection fund. At the end of the year any surplus or deficit in the collection fund will be taken into account as part of future year's rate retention calculations. Any risk will therefore be borne, in the first instance, by the collection fund rather than the general fund.

Relief schemes announced in the November budget will be fully compensated by s31 grants. As such, where Harrow awards additional reliefs under its discretionary powers which have been mandated by Central Government, and in turn its business retention take is reduced, this will be fully offset by 100% compensatory grant so the Council is no worse off.

Performance Issues

There is the potential that collection rates will be lower than anticipated in the tax base should the economy continue to be impacted by the on-going cost of living situation. However as already stated, any immediate risk will be borne, in the first instance, by the collection fund, which will give the authority time to address matters should a worse scenario than planned for materialise.

Environmental Implications

There are no direct environmental impacts anticipated from the recommendations contained within this report.

Data Protection Implications

There are no direct data protection impacts anticipated from the recommendations contained within this report.

Procurement Implications

There are no procurement impacts anticipated from the recommendations contained within this report.

Risk Management Implications

Risks included on corporate or directorate risk register? **No**

Yes - as part of MTFS

Separate risk register in place? **No** but part of overall budget risks

The relevant risks contained in the register are attached/summarised below. **N/A**

Whilst Officers have estimated the tax base as accurately as possible within the data available, there are risks which should be considered as set out in the table below.

Risk Description	Mitigations	RAG
1. Rate Retention calculation is inaccurate	Processes in place to validate tax base calculations. Calculation rules are mainly mandated by regulations although it also relies on Officers best estimates and local Harrow knowledge regarding commercial hereditaments.	Green
2. Expected Collection rate not achievable	A strict recovery program in place and BDP provisions for arrears are currently well provided for which would mitigate lower collection rates by up to an additional 1-2% in the short term.	Amber
3. Losses specifically due to the current economic situation	Facts as we know them taken into account and best estimates based on historical and current knowledge used as a guide. We have £1m in unused Appeal provisions and these will be regularly reviewed to ensure any potential new risks are mitigate against.	Amber

4.Volatility in the rating list	<p>The authority has no certainty regarding detrimental changes to the list. There are many potential changes that could occur (as below) and therefore the estimates rely on historical knowledge and officers best estimate.</p> <ul style="list-style-type: none"> •A specific levels of Appeals cannot be anticipated, •Property demolitions may occur which were not anticipated, •There may be Valuation Officer review of assessments which give rise to reductions in rateable value, especially risky due to the pandemic and the need for values to reflect lower occupancy specifically re office space •Substantial backdated RV reductions may occur which were not anticipated, •Rating is “reactive”; appeals served now may not be considered and resolved for a number of years, and, •Large hereditaments could have a disproportionate effect on Harrow, for example, heavy industrial plants etc, whose assessments may be challenged on multiple occasions through the life of the Rating List. 	Amber
Higher than anticipated losses due to Appeals materialises	<p>Whilst historically Harrow’s losses have been higher than Central Government suggested percentages, this has been mitigated against by increasing to £2.5m the Provisions for Appeals. As losses materialise over 2-3 years, building up provisions yearly will ensure no large loss due to this. Also future years will be reviewed to ensure a fighting fund exists to cater for potential large losses in the future should they occur.</p>	Amber

Equalities implications

There are no Equalities implications from this report.

Council Priorities

The Business Rates Baseline allows the Council to raise local funding which is fundamental in supporting all corporate priorities as Business Rates Retention is a key element of the Council’s overall budget. As such it supports;

1. A council that puts residents first
2. A borough that is clean and safe
3. A place where those in need are supported

Section 3 - Statutory Officer Clearance

Statutory Officer: Sharon Daniels

Signed off by the Chief Financial Officer

Date: 02 December 2023

Statutory Officer: Paresh Mehta

Signed on behalf of the Monitoring Officer

Date: 22 December 2023

Chief Officer: Sharon Daniels
Signed off by the Interim Director of Finance & Assurance
Date: 02 December 2023

Head of Procurement: Nimesh Mehta
Signed on by the Head of Procurement
Date: 14 December 2023

Head of Internal Audit: Neale Burns
Signed on behalf of the Interim Head of Internal Audit
Date: 14 December 2023

Has the Portfolio Holder(s) been consulted? Yes

Mandatory Checks

Ward Councillors notified: NO, as it impacts on all Wards

EqlA carried out: NO

This is a technical financial report which does not require an EqlA.

EqlA cleared by: N/A

Section 4 - Contact Details and Background Papers

Contact:

Fern Silverio (Head of Service – Collections & Housing Benefits),
Tel: 020-8736-6818 / email: fern.silverio@harrow.gov.uk

Background Papers:

- The Local Authorities (Funds) (England) Regulations 1992
<http://www.legislation.gov.uk/ukpga/1992/14/contents>
- The Non-Domestic Rating (Rates Retention) Regulations 2013
<http://www.legislation.gov.uk/ukdsi/2013/9780111532959/contents>

Call-in waived by the Chair of Overview and Scrutiny Committee: No