

# REPORT FOR: **CABINET**

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<b>Date of Meeting:</b>	15 January 2014
<b>Subject:</b>	Calculation of Business Rates Income for 2014 – 2015
<b>Key Decision:</b>	Yes
<b>Responsible Officer:</b>	Tom Whiting, Corporate Director of Resources
<b>Portfolio Holder:</b>	Councillor Toni Ferrari, Portfolio Holder for Finance
<b>Exempt:</b>	No
<b>Decision subject to Call-in:</b>	Yes
<b>Enclosures:</b>	None

## **Section 1 – Summary and Recommendations**

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.

Regulations require billing authorities to formally calculate the estimated level of non domestic rates (NDR) it anticipates to collect for 2014-2015 and pass this information to the Secretary of State and precepting authorities by 31 January in the preceding year.

### **Recommendations:**

That Cabinet considers the information given in this report and agrees that :

1. The non domestic rates estimates and calculations are calculated in

accordance with the regulations as follows:

		£m
	Projected NDR Income 2014/15	48.364
Less	Payable to DCLG (50% Central Share)	(24.182)
Less	Payable to the Greater London Authority (20%)	<u>(9.673)</u>
Equals	Amount to be retained by Harrow (30%)	<b>14.509</b>

2. The above information is provided to the Secretary of State and GLA by 31 January 2014.
3. The Council's Chief Finance Officer (section 151 officer) be authorised, following consultation with the Portfolio Holder, to submit revised figures (from those above) to the Secretary of State and GLA by 31 January 2014, if further clarification is received from DCLG on the financial impact of the proposed changes to the authority and how this is to be calculated.

**Reason:**

To fulfil the Council's statutory obligation to provide estimates and calculations in relation to NDR for 2014-2015.

It should also be noted that if the DCLG proposals (as noted in this report) are not implemented by Government, the council's estimated NDR income figures will need revision so that they can be submitted by the 31 January 2014 deadline.

## **Section 2 – Report**

### **1 Introduction**

- 1.1 The Local Government Finance Act 2012 introduced the Business Rate Retention (BRR) scheme from 01 April 2013.
- 1.2 The scheme provides for non-domestic rates collected by a billing authority to be shared between it, its major precepting authorities and central government. It also provides that certain sums are to be treated as being outside the scheme. These sums are retained in their entirety by the billing authority (or by the billing authority and some, or all, of its major preceptors).
- 1.3 Subsequent amendments to the statutory framework require 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.

- 1.4 There is no change to the way business rates are calculated; these continue to be set nationally. There is also no change to the existing mandatory and discretionary reliefs available to eligible ratepayers.

## **2. Background**

- 2.1 Under the Local Government Finance Act 1988, as amended by the LGFA 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, 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.
- 2.2 The above net resultant figure will then be divided by two. This will identify 50% to be paid to the Central Pool (Government). The other 50% will then be split 60/40 with the GLA, the 60% retained by Harrow equating to 30% of the overall total net yield.
- 2.3 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.

### **2.4 Harrow's NDR 2014/15 Tax Base**

- 2.5 The forecast in this report takes into account the latest data available including a list of all proposals outstanding (as provided by the Valuation Officer), an analysis of properties likely to be removed from the valuation list as well as an analysis of new potential properties coming into the list, an estimate of likely reliefs, reductions due to appeals and an estimate of likely losses due to some debts being uncollectable.
- 2.6 The forecast is required to be formally notified to DCLG and preceptors. This is done by billing authorities having to complete a business rates return estimating the likely business rates. The return takes the form of a formal National Non-Domestic rates return 1 (NDR 1) and uses the data used for the Council's Business Rates Tax Base estimate.
- 2.7 The calculation of Harrow's NDR income figure for 2014/15 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 DCLG 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

However, on the 6 December, the Department for Communities and Local Government (DCLG) published guidance on Business Rates following announcements in the Autumn Budget Statement which introduce the following;

Capping the 2014-15 multiplier at 2% rather than increasing it by 3.2% as per Sept 2013 RPI,

The extending of the doubling of the Small Business Rates Relief (SBR) for a further 12 months until 31/3/2015,

A discount of £1,000 for shops, pubs and restaurants with a rateable value below £50,000 for two years up to the state aid limits, from 1 April 2014.

The granting of 50% business rates relief for 18 months – between 1 April 2014 and 31 March 2016 – for businesses that move into retail premises that have been empty for a year or more.

The DCLG announcement also confirmed an indicative compensation figure of £375k to be paid to Harrow under section 31 grant as a result of the above measures. The Business Rates retention calculation has therefore used this figure (grossed up from 30% to 100% to reflect the expected reduction in gross Business Rates loss of £1,250,000).

The Business Rates Retention calculation additionally takes the above factors into account.

## 2.8 Table 1

### Projected NDR income calculation for 2014/15 –(using November 2013 data)

Local Authority	Harrow	
	£m	
Gross Rateable value November 2013	129.067	a
Small Business Rate Multiplier (13/14)	0.462	b
Inflation Assumption / RPI/DCLG cap	2.0%	c
Business Rate Multiplier 2014/15	0.471	d
		b x c(+b)
<b>Notional gross yield figure</b>	<b>60.821</b>	<b>e</b>
		a x d
Losses due Small business rate relief	2.820	r
Change in notional gross yield 2013/14 to 2014/15	102.0%	g
Projected small business rate relief 2014/15	2.876	h
		f x g
Losses due to Empty property exemptions	1.900	i
Change in notional gross yield 2013/14 to 2014/15	102.0%	j
Projected Empty property exemptions 2014/15	1.938	k
		i x j
Mandatory relief	4.750	l
Change in notional gross yield 2013/14 to 2014/15	102.0%	m
Projected Mandatory Relief 2014/15	4.845	n
		l x m
Discretionary relief	0.60	o
Change in notional gross yield 2013/14 to 2014/15	102.0%	p
Projected Discretionary Relief 2014/15	0.61	q
		o x p
Additional Yield generated from SBR suppl	0.700	r1
Cost of collection	0.254	r 2
<b>Projected contribution to the pool</b>	<b>51.547</b>	<b>s</b>
		e-h-k-n-q-r1+r2
Losses in collection 2%	1.031	t
Losses on appeal 2.4%	0.902	u
Losses due to Enterprise Zones	0.000	v
Losses on Transitional Relief (net) <b>(Ignore)</b>	<b>0.098</b>	w
Gains due to Renewable Energy schemes	0.000	x
Gains due to New Developments	0.000	y
<b>Net contribution to the pool</b>	<b>49.614</b>	<b>z</b>
		s- t-u
Less Reduction due to DCLG Autumn Budget announcement	1.250	
<b>Contribution to pool</b>	<b>48,364</b>	
Less Central Share (50% to Government)	-24,182	
Less Fire Authority share	-0.483	
Less GLA Transport	-9.190	
<b>NDR Income retained</b>	<b>14.509</b>	

## 2.9 Legal Implications

- 2.10 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. 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.
- 2.11 The regulations contain detailed formulae for calculations. The Business Rates Tax Base has therefore been calculated according to the relevant formulae and guidance issued to date and is made up of the following;
- Estimated Gross Business Rate Yield less
  - Adjustments for empty rate relief
  - Adjustments for small business rate relief
  - Adjustments for Mandatory Charity Relief
  - Adjustments for Discretionary Rate Relief
  - Adjustments for Transitional Relief
  - Adjustments for enterprise zones, new builds, renewable energy schemes, other deductions
  - Cost of collection
  - Losses on collection
  - Expected losses on appeals
- 2.12 At present the regulations and legislation do not appear to require decisions to be taken at a particular level within the council. In the absence of any specific statutory requirement as to decision making, it is necessary to take account of the Functions and Responsibilities Regulations 2000 which set out decisions which can and cannot be taken by the Executive.
- 2.13 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. However, due to the fact that regulations have not been made to reflect the Government's intended changes, there is a risk that the estimates will have to be revised to reflect the existing regulatory requirements. It is proposed that if this happens, this decision is delegated to the Director of

Finance, in consultation with the Portfolio Holder, to ensure the Council meets its statutory requirements

## 2.14 Financial Implications

This is a report of the Corporate Director of Resources and deals with financial matters throughout. The retained amount for Business Rates has been determined to be **£14.509m** and the amount will be reflected in the Council's Final Revenue Budget for 2014-15.

## 2.15 Performance Issues

Although the likely NDR income figures above are being used to estimate actual NDR income for 2014/15 and, therefore, included as such in setting the 2014/15 budget, ultimately, it will be actual NDR income received that will be available to the authority. This may be less or more than the actual estimate and brings a certain amount of risk.

In percentage terms the collection rates achieved over the last three financial years are as below and in the current year at quarter 2 is 58.3%.

	2010/11	2011/12	2012/13
Non-domestic rates collected %	96.4%	96.2%	95.4

Officers ability to both forecast NDR income for budgeting purposes and monitor actual NDR income during the year will be critical in the process and in managing potential income pressures during the year.

## 2.16 Environmental Impact

None

## 2.17 Risk Management Implications

The authority needs certainty regarding the volatility in the rating list, however this cannot be guaranteed

- As 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,
- 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,
- 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.

Apart from the above, other matters that may affect the bottom line business rates income are;

- Losses on collection
- Discretionary Rate Relief “top ups”
- Discretionary Section 44a relief
- Charitable Trusts
- Rate audit and appeals by Harrow against property in its own portfolio
- The issuing, or lack of issuing, completion notices.

It should also be noted that a high in year collection percentage of business rates now becomes much more important than in previous years as the local authority will now have a direct vested interest in collecting as much business rates as it can to ensure it meets its own forecast on which the budget is based.

There is a danger that the actual gross Business Rates reduction, based on recent Central Government announcements, will be higher than that estimated by Officers. We must therefore accept there may well be a risk to the collection fund in the form of a deficit for the year 2015/16 if the Business Rates reduction is indeed higher than the £1.25m assumed.

## 2.18 Equalities implications

None

## 2.19 Corporate 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.

## Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 24 December 2013		

Name: Sarah Wilson	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 30 December 2013		



## Section 4 – Performance Officer Clearance

Name: Martin Randal



on behalf of the  
Divisional Director  
Strategic  
Commissioning

Date: 12 November 2013

## Section 5 – Environmental Impact Officer Clearance

Name: Andrew Baker



on behalf of the  
Corporate Director of  
Environment and  
Enterprise

Date: 12 November 2013

## Section 6 - Contact Details and Background Papers

**Contact:** Fern Silverio – (Divisional Director, Collections & Housing Benefits)  
Tel: 020-8736-6818 / email: [fern.silverio@Harrow.gov.uk](mailto:fern.silverio@Harrow.gov.uk)

### Background Papers:

- Government Guidance on Business Rates Retention  
<https://www.gov.uk/government/publications/business-rates-retention-and-the-local-government-finance-settlement-a-practitioners-guide>
- The Local Finance Act 1988 as amended by the LGFA 2012  
<http://www.legislation.gov.uk/ukpga/2012/17/enacted>
- Localism Act 2011  
<http://www.legislation.gov.uk/ukpga/2011/20/contents/enacted>

**Call-In Waived by the  
Chairman of Overview  
and Scrutiny  
Committee**

**NOT APPLICABLE**

*[Call-in applies]*