

REPORT FOR: **CABINET**

Date of Meeting:	11 December 2014
Subject:	Calculation of Business Rates Income for 2015 – 2016
Key Decision:	Yes
Responsible Officer:	Tom Whiting, Corporate Director of Resources
Portfolio Holder:	Councillor Sachin Shah, Portfolio Holder for Finance and Major Contracts
Exempt:	No
Decision subject to Call-in:	Yes
Enclosures:	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 2015-2016 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 2015/16	46.705
Less	Payable to DCLG (50% Central Share)	(23.352)
Less	Payable to the Greater London Authority (20%)	(9.341)
Equals	Amount to be retained by Harrow (30%)	14.012

2. The above information is provided to the Secretary of State and GLA by 31 January 2015.
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 2015, 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 2015-2016.

Section 2 – Report

2 Introduction

- 2.1 The Local Government Finance Act 2012 introduced the Business Rate Retention (BRR) scheme from 01 April 2013.
- 2.2 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).
- 2.3 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.

- 2.4 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.

2.5 Background

- 2.6 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.
- 2.7 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.
- 2.8 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.

2.9 Harrow's NDR 2015/16 Tax Base

- 2.10 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.
- 2.11 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.
- 2.12 The calculation of Harrow's NDR income figure for 2015/16 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, in December 2013 and December 2014, the Department for Communities and Local Government (DCLG) published guidance on Business Rates following announcements in the Autumn Budget Statements which introduced the following measures which impact on the 2015/16 business rates tax take;

- The extending of the doubling of the Small Business Rates Relief (SBR) for a further 12 months until 31/3/2016,
- 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 Business Rates Retention calculation additionally takes the above factors into account.

2.13 Table 1

Projected NDR income calculation for 2015/16 – (using November 2014 data)

Projected NDR Income calculation for 2015/16 - using current year data (at 30 November 2014)				
Local Authority	Harrow			
	£m			
Gross Rateable value November 2014	126,232,782	a		
Small Business Rate Multiplier 2014/15	0.471	b		
Inflation Assumption / RPI @ Sept 2014	2.30%	c		
Assumed Small Business Rate Multiplier 2015/16	0.482	d		b x c(+b)
Notional gross yield figure	60,823,120	e		a x d
Losses due Small business rate relief	3,010,463	f		
Change in notional gross yield	2.30%	g		
Projected small business rate relief 2015/16	3,079,704	h		f x g
Losses due to Empty property exemptions	2,250,000	i		
Change in notional gross yield	2.30%	j		
Projected Empty property exemptions 2015/16	2,301,750	k		i x j
Losses due to Mandatory relief	4,500,000	l		
Change in notional gross yield	2.30%	m		
Projected Mandatory Relief 2015/16	4,603,500	n		l x m
Losses due to Discretionary relief	60,000	o		
Change in notional gross yield	2.30%	p		
Projected Discretionary Relief 2015/16	61,380	q		o x p
Additional Yield generated from SBR supplement	-500,000			
Less Cost of collection	260,000			
	-240,000	r		
Projected contribution to the pool	51,016,786	s		e-h-k-n-q-r
Losses in collection 2.5%	1,275,420	t		
Losses due to appeals 3.5%	1,785,588	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	100,000	y		
Net contribution to the pool	47,955,779	z		s- t-u-v-w-x
Less Reduction due to DCLG Autumn Budget Changes	1,250,000			Retail Relief
Contribution to pool	46,705,779			
Less Central Share (50% to Government)	-23,352,890			
Less Fire Authority share	-467,058			
Less GLA Transport	-8,874,098			
NDR Income retained = 30%	14,011,734			

2.14 Reasons for a Lower Retention Amount in 2015/16

- 2.15 Following an analysis of the rateable value (RV), the total RV between November 2013 and 30th November 2014, shows the following movement:

Date	RV	Number of Properties
28/11/13	129,067,888	5,545
12/11/14	126,232,782	5,564

The amount of Business Rates Retention for 2015/16 has dropped significantly regardless that yield has benefited from an increase in multiplier of 2.3%, this being the RPI figure as at September 2014 which legislation requires the multiplier to be increased by.

The reasons for the reduction in yield are;

- Rateable Value has reduced by over £2.8m or 2.2% in 12 months.
- Tax Base is being eroded by commercial property being converted to domestic or being demolished and awaiting domestic properties being built
- Valuation Officer accelerating its determination of Appeals and granting reductions in a condensed period in order to meet “clearance targets”

- 2.16 Losses are predominantly concentrated on commercial properties above £100k rateable value. For example;

A) *An analysis of the properties with a RV of over £100K for the same period shows that in November 2013 they represent just under 42% of the total borough RV (£54,174,750)*

B) *In November 2014, £1,727,500 of the total RV reduction between November 2013 and 12/11/14 as above, relates to properties with an RV of over £100K which equates to 75% of the RV loss*

- 2.17 Key future risks are properties with an RV over £500K which are known to have appeals lodged or that have asked for changes in planning permission for conversion into domestic use. Examples of this are:-

Bovis House 142 Northolt Road	RV £675,000
Colarts Whitefriars Avenue	RV £500,000

Of the remaining key risks, (23 properties), 2 are known major redevelopments but we are unable to determine impact at this point i.e.

Kodak	RV £1,740,000
RNOH Brockley Hill	RV £ 515,000

Four assessments including the Civic Centre also have outstanding appeals lodged with the VOA which may impact significantly on Harrows' Business Rates Retention share.

Another reason for the lower rate retention amounts are the additional reliefs being granted which were announced in last year's Autumn Budget Statement and applied for two years. This has resulted in an additional £450k being granted in relief so far this year which we expect to rise to £1.25m in 2015/16. However we will receive full compensation via a s31 grant which should increase our overall rate retention/s31 grant total to a similar figure as retained last year (£14.5m).

2.18 Legal Implications

2.19 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.

2.20 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

2.21 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.

- 2.22 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.

2.23 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 £14.012m and the amount will be reflected in the Council's Final Revenue Budget for 2015-16.

2.24 Performance Issues

Although the likely NDR income figures above are being used to estimate actual NDR income for 2015/16 and, therefore, included as such in setting the 2015/16 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;

	2011/12	2012/13	2013/14
Non-domestic rates collected %	96.2%	95.4%	95.7%

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.

2.25 Environmental Impact

None

2.26 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 is extremely important as the local authority now has 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 2016/17 if the Business Rates reduction is indeed higher than the £1.25m assumed.

2.27 Equalities implications

None

2.28 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

on behalf of the
Chief Financial Officer

Date: 27 November 2014

Name: Sarah Wilson

on behalf of the
Monitoring Officer

Date: 27 November 2014

Ward Councillors notified: NO

EqIA carried out: NO

EqIA cleared by: Not Applicable

Section 4 - Contact Details and Background Papers

Contact: Fern Silverio – (Divisional Director, Collections & Housing Benefits)
Tel: 020-8736-6818 / email: 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]