HarrowCOUNCIL
LONDON

REPORT FOR: CABINET

Date of Meeting:	19 January 2017
Subject:	Approval of Business Rates Income Resource Base for 2017 – 2018
Key Decision:	Yes
Responsible Officer:	Tom Whiting, Corporate Director of Resources and Commercial
Portfolio Holder:	Councillor Adam Swersky, Portfolio Holder for Finance and Commercialisation
Exempt:	No
Decision subject to Call-in:	No, as the decision is urgent and a waiver of call-in has been obtained from the Chair of the Overview and Scrutiny Committee
Wards affected:	All
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.

This report estimates the business rates yield for 2017-2018, of which Harrow is allowed to retain an element described in more detail below. This element forms an important part of budget setting for the coming year.

Regulations require billing authorities to formally calculate the estimated level of non domestic rates (NDR) it anticipates to collect for 2017-2018 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:

1. That the approach and assumptions for the calculation of the Council's business rates yield as set out in this report be approved.

2. That, 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 2017-2018 shall be £14.446m as shown in the table below.

		£m
	Projected NDR Income 2017/18	48.155
Less	Payable to DCLG (33%) Central Share)	(15.891)
Less	Payable to the Greater London Authority (37%)	(17.818)
Equals	Amount to be retained by Harrow (**30%**)	***14.446***

3. That authority be delegated to the Council's Chief Finance Officer (section 151 officer) to submit the notification of the calculation of the estimated Non-Domestic Rates income to the Secretary of State and the Greater London Authority (GLA) by 31 January 2017 or other date as may be prescribed.

4. 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, 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 2017-2018.

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 London is a pilot region for the introduction of 100% rates retention which is expected to be rolled out nationally by 2019-20. In 2017-18 Transport for London's £960 million capital investment grant and the GLA's revenue support grant of £148 million will be rolled into the rates retention system. As a result the GLA's current 20% share of business rates is expected to be increased to 37% as agreed between the Mayor of London, the Government and London Councils. This will be offset by a reduction in CLG's central share from 50% to 33%. The remaining 30% will be retained by Harrow. Decisions on the apportionment of the remaining 33% central share between the GLA and London Boroughs will be a matter for future agreement by the Mayor and London Councils taking into account the funding and functions which will be devolved.

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 National Non Domestic (NDR) retained amount for 2017/18

2.10 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.

2.11 The forecast is required to be formally notified to DCLG and preceptors. This is done by billing authorities having to complete a DCLG 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.

2.12 The calculation of Harrow's NDR income figure for 2017/18 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

2.13 Table 1

Projected NDR income calculation for 2017/18 – (using December 2016 data)

Local Authority	**Harrow**		
	£m		
Gross Rateable value - Draft List 2017	143,724,184	a	
Small Business Rate Multiplier 2017/18	0.466	b	
Inflation Assumption / RPI @ Sept 2016	0.00%	c	
Assumed Small Business Rate Multiplier 2017/18	0.466	d	b x c(+b)
Notional gross yield figure	**66,975,470**	e	a x d
Less In year RV fluctuations - 2%	**1,339,509**		
Expected Notional gross yield figure	**65,635,960**	e	
Losses due to Small business rate relief	6,500,000	f	
Change in notional gross yield	0.00%	g	
Projected small business rate relief 2017/18	6,500,000	h	f x g
Losses due to Empty property exemptions	2,300,000	i	
Change in notional gross yield	0.00%	j	
Projected Empty property exemptions 2017/18	2,300,000	k	i x j
Losses due to Mandatory relief	5,300,000	l	
Change in notional gross yield	0.00%	m	
Projected Mandatory Relief 2017/18	5,300,000	n	l x m
Losses due to Discretionary relief	80,000	o	
Change in notional gross yield	0.00%	p	
Projected Discretionary Relief 2017/18	80,000	q	o x p
Additional Yield generated from SBR supplement	-500,000		
Less Cost of collection	248,795		
	-251,205	r	
Projected contribution to the pool	**51,707,165**	s	e-h-k-n-q-r
Losses in collection 3%	1,551,215	t	
Losses due to appeals	2,000,000	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	48,155,950	**z**	**s- t-u-v-w-x**
Less Other Reductions - DCLG S31 Initiatives	0		
Contribution to pool	**48,155,950**		
Less Central Share (33% to Government)	-15,891,464		
Less Fire Authority share (1%)	-481,560		
Less GLA Transport (36%)	-17,336,142		
NDR Income retained = 30%	**14,446,785**		

2.14 Reasons for a Higher Retention Amount in 2017/18

2.15 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.

The reasons for the changes in yield are mainly;

- 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"
- More occupiers claiming 80% mandatory charity relief (eg school Academies')
- Insufficient new commercial properties being built to offset losses
- Impact of the 2017 national re-valuation

2.15 The tax base used to calculate the 2017/18 rate retention amounts has however benefited from the 2017 national rate revaluation. The current rateable values (RV's) came into force from 1 April 2010 and were due to be revalued on 1 April 2015. However government decided to postpone that revaluation for two years and it is now taking place in 2017, but is based on values as at April 2015. The last valuation values were based on valuations as at April 2008. The retention amounts have been estimated based on the draft list RV's supplied by the Valuation Office Agency (VOA) as at 28/12/2016. Harrow's rateable values increased by 14.33% which resulted in a higher retention amount. However grant has been reduced by approximately £0.5m in the recent settlement to offset this.

It will not be possible for rate payers to appeal against the new RV's until they come into force on 1 April 2017. Whilst it is impossible to predict the level of appeals that might occur, this issue carries considerable risk and a larger than usual allowance has been built into the figures to mitigate against excessive losses. This is because historically Harrow has received a disproportionate amount of appeals compared to London and indeed the rest of the country.

As illustrated below, the number of unresolved appeals nationally at 31 March 2016 equated to 22 per cent of all hereditaments on the rating list in London – more than 50 per cent higher than the national average. Harrow is one of 5 London Boroughs where the number of outstanding appeals exceeded 30 per cent of the total number of hereditaments.

Figure A1 - Unresolved Appeals as % of Total Hereditaments on the 2010 Local Rating List (English regions and Wales) as at 31 March 2016

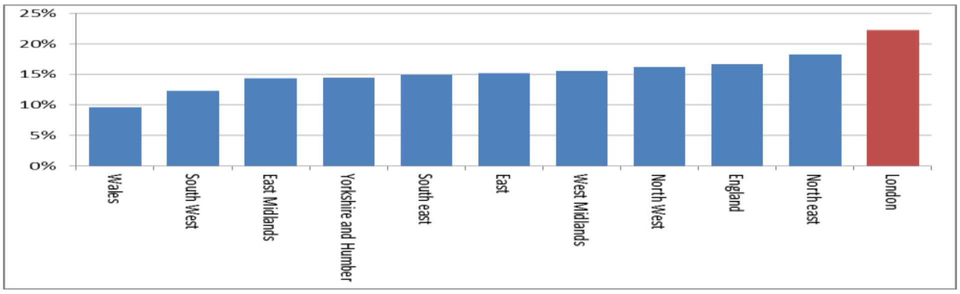
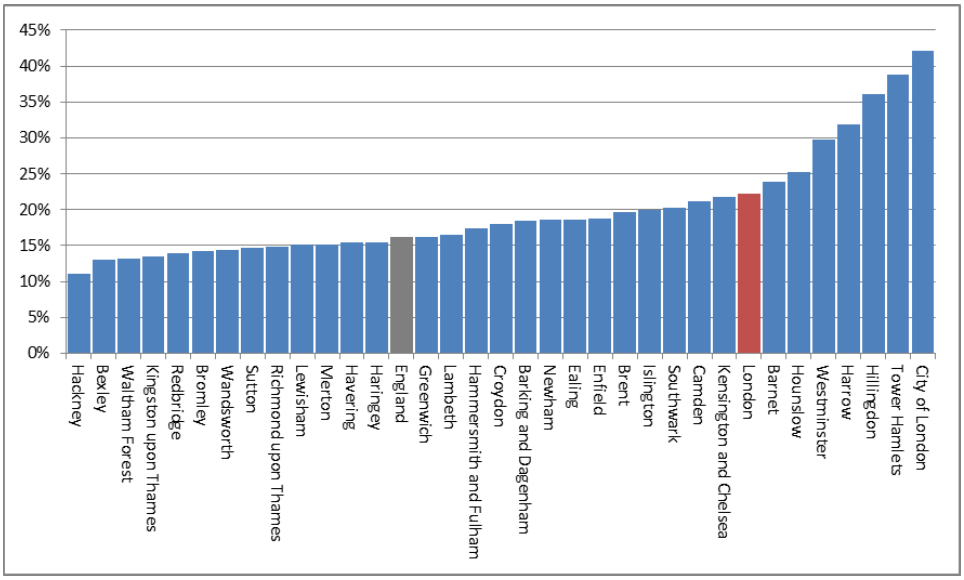


Figure A2 - Unresolved Appeals as % of Total Hereditaments on the 2010 Local Rating List (London Billing Authorities) as at 31 March 2016 – London Boroughs & England



2.16 Other risks are brought by the legislative changes being introduced by Government regarding small business rates relief for the 2017/18 financial year.

<u>Small business rates relief (SBBR) scheme permanently doubled</u>
The small business rates relief scheme is permanently doubled with effect from 1 April 2017. Small businesses who occupy properties with a rateable value of below £12,000 (up from £6,000) will pay no business rates at all from 1 April 2017. A tapered relief scheme will be implemented for rateable values between £12,000 and £15,000; from 100% relief below £12,000 to no relief above £15,000.

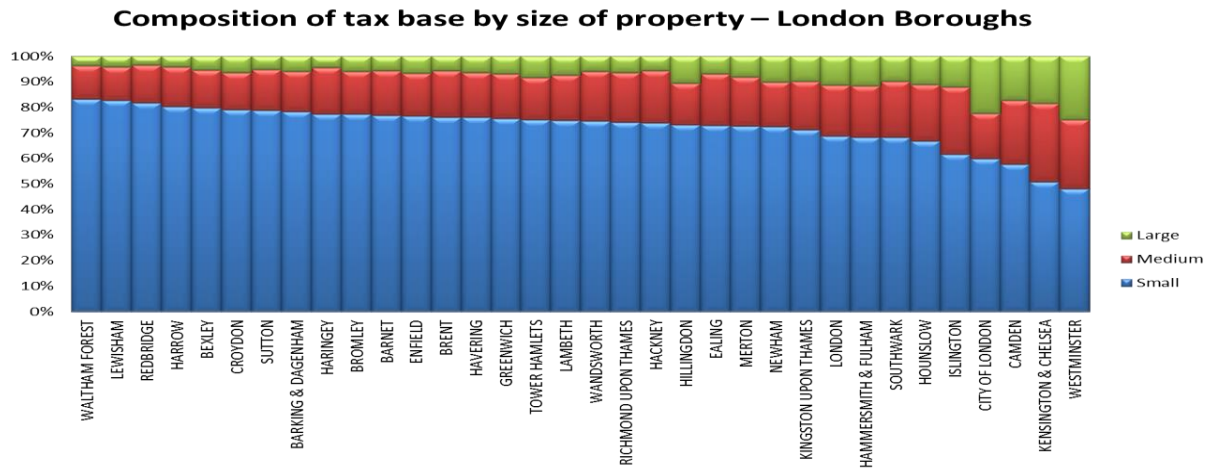
Currently this extends to 1,553 hereditaments (saving traders £3.1m). Under the revised scheme approximately 3,200 businesses could benefit from this change. This could lose Harrow another £3m-£3.6m in yield and has been factored into the calculations.

Whilst this is good news for approximately 1600 additional local traders, it puts at risk Harrows rate retention income as approximately £1m (30% Harrow share) will be lost via the revised scheme as more small traders pay no business rates whatsoever.

<u>Standard business rates multiplier threshold significantly increased</u>
The upper threshold for the standard business rates multiplier (UBR) – currently used to calculate business rates on properties with a rateable value between £12,000 and £18,000 - has been significantly increased to £51,000, taking many smaller Harrow properties out of the higher rate.

As this reduces significantly the number of commercial properties being subject to the higher standard multiplier, the change will reduce the yield, raised by the supplement on the higher multiplier, reducing Harrow rates income by around £400k (30% Harrow share). This is because a disproportionate amount of traders in Harrow are SME’s and the commercial properties in Harrow reflect this, most being below the £51,000 RV (4,843 out of 5,355 total properties or 90%).

It is envisaged however that the loss to the local authority in rate retention from the two above changes will be offset by a section 31 grant.



Source: London Councils analysis of VOA data
Note: Small = <£28k; medium = £28k-£100k; Large = >£100k

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. This will be done via a form known as NNDR1. The Government has set out the process for this in the Non Domestic Rating (Rates Retention) Regulations 2013. A delegation is also included to enable the Council's Chief Finance Officer (section 151 officer) to fulfil the notification requirements described above.

2.20 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.

2.21 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.

2.22 Financial Implications

Section 31B of the Act requires the local authority to set a council tax sufficient to meet its expenditure 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 2017-2018. The approval of the business rates yield is therefore an important element in ensuring the Councils meets its statutory duty to balance its budgets.

The retained amount for Business Rates has been determined to be **£14.446m** and this amount will be reflected in the Council’s Final Revenue Budget for 2017-18.

2.23 Performance Issues

The estimated NDR income figures above will become the actual NDR income for 2017/18, and will be used in setting the 2017/18 budget. 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 years rate retention calculations. Any risk will therefore be borne, in the first instance, by the collection fund rather than the general fund.

In percentage terms the collection rates achieved over the last four financial years are as below;

	2012/13	2013/14	2014/15	2015/16
Non-domestic rates collected %	95.4%	95.7%	96.3%	94.1%

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.

2.24 Environmental Impact

None

2.25 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.

2.26 Equalities implications

None

2.27 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: Baljeet Virdee Date: 2 December 2016	x	on behalf of the Chief Financial Officer
Name: Sharon Daniels Date: 2 December 2016	x	on behalf of the Monitoring Officer

Ward Councillors notified:	**NO**
EqIA carried out: **EqIA cleared by:**	**No** 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:
None.

Call-In Waived by the Chairman of Overview and Scrutiny Committee	**YES** *[Call-in does not apply as the decision is urgent, as set out below]* The Authority has to formally calculate the Business Rates retention amount for 2017-2018 and pass this information to precepting authorities by 31 January 2017. The Business Rates income must be calculated between 1 December 2016 and 31 January 2017. It was not possible to prepare an earlier report to Cabinet due to the many variables that had not been clarified by DCLG at an earlier stage. This report also now uses the latest outcomes of the National re-valuation of all commercial property, a second draft list having only been issued on the 14/12/2016 and which was key for

	LA's to use to calculate their rate retention amounts. As the rate retention amount has only been able to be accurately calculated in early January, it was not therefore possible to meet an earlier Cabinet date than 19/1/17. As it is necessary to declare the Business Rates income retention amounts by the end of January, the call in process could seriously prejudice the Council's or the public's interests as the call in period finishes at 5pm on 27 January and the GLA would therefore need to be formally notified of the formal amounts calculated no later than 5.00pm on the 31st of January (the last working day of January). I am therefore requesting that this report be treated as an urgent decision so Call-in does not apply to it. Should this be agreed, any potential delay / risk likely to be caused by the call-in process would be mitigated.