Harrow COUNCIL LONDON

# REPORT FOR: CABINET

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|---|---|
| **Date of Meeting:** | 7 December 2017 |
| **Subject:** | Approval of Business Rates Income Resource Base for 2018 – 2019 |
| **Key Decision:** | Yes |
| **Responsible Officer:** | Tom Whiting, Corporate Director of Resources and Commercial |
| **Portfolio Holder:** | Adam Swersky Finance, Portfolio Holder for Finance and Commercialisation |
| **Exempt:** | No |
| **Decision subject to Call-in:** | Yes |
| **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 2018-2019, 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 2018-2019 and pass this information to the Secretary of State and precepting authorities by 31 January in the preceding year.

This report is written on the basis that the apportionment of business rates revenues remains the same as in 2017-18 i.e. Harrow's share is 30%. London Councils and the Mayor of London have submitted a proposal to the Government for the creation of a 100% business rates retention pilot. Should this be agreed by the Government Harrow's business rates share is likely to increase to around 64% and it is likely to also benefit from a share of any London wide growth. Should this be confirmed in the local government finance settlement revised estimates will be reported to Cabinet and Full Council as part of the 2018-19 budget approval process in February 2018.

## 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 2018-2019 shall be £15.001m as shown in the table below.

| | | £m |
|---|---|---|
| | Projected NDR Income 2018/19 | 50.003 |
| Less | Payable to DCLG (33%) Central Share) | (16.501) |
| Less | Payable to the Greater London Authority (37%) | (18.501) |
| Equals | Amount to be retained by Harrow (**30%**) | ***15.001*** |
| | | |

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 2018 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.

5. That should a 100% business rates pool for London be approved by the Government for 2018-19 revised estimates of the distribution of Harrow's business rates income will be reported to Cabinet and Council in February 2018 as part of the report approving the budget and council tax

## Reason:

To fulfil the Council's statutory obligation to provide estimates and calculations in relation to NDR for 2018-2019.

# 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 Background

2.5 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, 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.

2.6 Income raised is currently allocated as follows; Harrow retains 30%, the GLA's retains 37%, and DCLG retains the balance, 33%.

2.7 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.

2.8 Harrow has agreed in principle to support a 100% business rates retention pilot proposal for 2018-19 covering London which has been submitted to the Government by London Councils and the Mayor of London. This approach was agreed collectively by borough leaders and the Mayor at the Congress of Leaders meeting on 10 October.

2.9 Should the pilot be implemented, Harrow would receive a proportion of the collective growth in London arising from the pool and the no detriment clause agreed by the Government would guarantee that the Council could be no worse off than it would have been have been had the pilot not been put in place. The pilot would only be guaranteed for one year but the aspiration would be to continue it in future years through and beyond the expected roll out of 100% retention across England in 2020-21 or 2021-22. Full implementation of 100% retention will, however, require primary legislation.

2.10 Should a 100% business rates pool for London be approved by the Government for 2018-19 revised estimates of the distribution of Harrow's business rates income and its potential gains from the pooling arrangement will be reported to Cabinet and Council in February 2018 as part of the report approving the budget and council tax for that year.

## 2.11 Harrow's National Non Domestic (NDR) retained amount for 2018/19

2.12 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.

2.13 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.

2.14 The calculation of Harrow's NDR income figure for 2018/19 and for the formal outturn is therefore as follows;

| |
|---|
| Gross Rates Yield:<br>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:<br>Change in Rateable Value due to growth or reduction in property numbers<br>Adjustment due to Appeals |
| Net Business Rates Yield and base of the calculation of central and local shares |

## 2.12 Table 1

## Projected NDR income calculation for 2018/19 – (using November 2017 data)

| | | | |
|---|---|---|---|
| **Local Authority** | **Harrow** | | |
| | **£m** | | |
| Gross Rateable value - Rating List 2018 | 141,484,161 | a | |
| Small Business Rate Multiplier 2018/19 | 0.466 | b | |
| Inflation Assumption / CPI @ Sept 2017 | 3.00% | c | |
| Assumed Small Business Rate Multiplier 2018/19 | 0.480 | d | b x c(+b) |
| **Notional gross yield figure** | **67,909,568** | e | a x d |
| **Less In year RV fluctuations - 1.00%** | **679,096** | | |
| **Expected Notional gross yield figure** | **67,230,472** | e | |
| | | | |
| **Losses due to Small business rate relief** | 4,725,223 | f | |
| Change in notional gross yield | 3.00% | g | |
| Projected small business rate relief 2018/19 | 4,866,980 | h | f x g |
| | | | |
| **Losses due to Empty property exemptions** | 1,750,000 | i | |
| Change in notional gross yield | 3.00% | j | |
| Projected Empty property exemptions 2018/19 | 1,802,500 | k | i x j |
| | | | |
| **Losses due to Mandatory relief** | 5,350,000 | l | |
| Change in notional gross yield | 3.00% | m | |
| Projected Mandatory Relief 2018/19 | 5,510,500 | n | l x m |
| | | | |
| **Losses due to Discretionary relief** | 40,000 | o | |
| Change in notional gross yield | 3.00% | p | |
| Projected Discretionary Relief 2018/19 | 41,200 | q | o x p |
| | | | |
| **Additional Yield generated from SBR supplement** | -500,000 | | |
| **Less Cost of collection** | 248,000 | | |
| | -252,000 | r | |
| | | | |
| **Projected contribution to the pool** | **55,261,292** | s | e-h-k-n-q-r |
| Losses in collection 3% | 1,657,839 | t | |
| Losses due to appeals | 3,600,000 | 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** | 50,003,453 | **z** | **s- t-u-v-w-x** |
| | | | |
| **Less Other Reductions - DCLG S31 Initiatives** | 0 | | |
| | | | |
| **Contribution to pool** | **50,003,453** | | |
| Less Central Share (33% to Government) | -16,501,140 | | |
| Less GLA Transport (37%) | -18,501,278 | | |
| **NDR Income retained = 30%** | **15,001,036** | | |

## 2.13 Reasons for a Higher Retention Amount in 2018/19

2.14 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.

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 2018/19 rate retention amounts has however benefited from the 2017 national rate revaluation and an increase in the Sept 2017 RPI which is used to calculate next year's rating multiplier.

## 2.16 Legal Implications

2.17 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.

I understand that London Councils have agreed to commence a London pilot scheme from the 1st April 2018 whereby they will end up retaining a larger percentage of NDR. At this time no specific details have been provided by DCLG regarding this pilot scheme or altering the current reporting requirements and therefore, in the interim, the Council must proceed with the legislation currently in force.

2.18 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.

2.19 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.

## 2.20 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 2018-2019. The approval of the business rates yield is therefore an important element in ensuring the Council meets its statutory duty to balance its budgets.

The retained amount for Business Rates has been determined to be **£15.001m** - assuming Harrow's business rates share remains at its current 30% - and this amount will be reflected in the Council's Final Revenue Budget for 2018-19 subject to any revisions being made to the Council's share required if the proposed London 100% business rates pilot is agreed by the Government.

## 2.21 Performance Issues

The estimated NDR income figures above will become the actual NDR income for 2018/19, and will be used in setting the 2018/19 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 year's 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;

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|---|
| Non-domestic rates collected % | 95.7% | 96.3% | 94.1% | 97.6% |

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.

## 2.22 Environmental Impact

None

## 2.23 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.

## 2.24 Equalities implications

None

## 2.25 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: Sharon Daniels<br><br>Date: 09 November 2017 | X | on behalf of the<br>Chief Financial Officer |
| Name: Baljeet Virdee<br><br>Date: 03 November 2017 | X | on behalf of the<br>Monitoring Officer |

| | |
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| **Ward Councillors notified:** | **NO** . |
| **EqIA carried out:**<br><br>**EqIA cleared by:** | **No**<br><br>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

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| **Call-In Waived by the Chairman of Overview and Scrutiny Committee** | **NOT APPLICABLE**<br><br>*[Call-in applies]* |