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**REPORT FOR: CABINET**

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<b>Date of Meeting:</b>	17 January 2019
<b>Subject:</b>	Business Rates Income Resource Base for 2019 – 2020
<b>Key Decision:</b>	Yes
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance
<b>Portfolio Holder:</b>	Adam Swersky, Portfolio Holder for Finance and Resources
<b>Exempt:</b>	No
<b>Decision subject to Call-in:</b>	Yes
<b>Wards affected:</b>	All
<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.

This report estimates the business rates yield for 2019-2020, 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 year.

Regulations require billing authorities to formally calculate the estimated level of non-domestic rates (NDR) it anticipates to collect for 2019-2020 and pass

this information to the Secretary of State and precepting authorities by 31 January in the preceding year.

London Councils and the Mayor of London submitted a proposal to the Government for the continuation of a 100% business rates retention pilot for 2019/20 financial year. This was agreed by the Government but the Local Authorities share, and therefore Harrow's business rates share, has changed to 48%, (i.e. the central share will be 25% with the 75% local share being split 27% GLA / 48% boroughs in line with the 36/64 split in 2018/19).

### **Recommendations:**

That Cabinet considers the information given in this report and:

1. Notes the approach and assumptions for the calculation of the Council's business rates yield as set out in this report.
2. Agrees 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 2019-2020 shall be £24.833m as shown in the table below.

		£m
	Projected NDR Income 2019/20	51.736
Less	Payable to DCLG (25% Central Share)	(12.934)
Less	Payable to the Greater London Authority (27%)	(13.969)
Equals	Amount to be retained by Harrow (48%)	<b>24.833</b>

3. Agree 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 2019 or other date as may be prescribed.
4. Agrees that the Council's Chief Finance Officer (Section 151 officer) be authorised, following consultation with the Portfolio Holder for Finance and Resources, to submit revised figures (from those above) to the Secretary of State and GLA, if further clarification is received from Ministry of Housing, Communities and Local Government (MHCLG) on the financial impact of the proposed changes to the authority and how this is to be calculated.

### **Reason (for recommendations):**

To fulfil the Council's statutory obligation to provide estimates and calculations in relation to NDR for 2019-2020.

## **Section 2 – Report**

### **2 Introduction**

- 2.1 The Local Government Finance Act 2012 introduced the Business Rate Retention (BRR) scheme from 1 April 2013.
- 2.2 Following the 2017 Autumn Budget, a 100% Business Rates retention pilot was introduced for 2018/19. From 1 April 2018 London authorities retained 100% of their non-domestic rating income. Harrow retained 64% and, the GLA 36%.

The pilot was implemented via a London wide Business Rates Pool which was formally confirmed in a Memorandum of Understanding signed by the Mayor, the Chair of London Councils, the Minister for London and Secretary of State for Communities and Local Government.

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 Following the announcements in the 2018 Autumn budget, London authorities will, for 2019/20, continue to participate in a London wide Business Rates Pool pilot, but with local retention moving to 75% instead of 100%. As such Harrow will retain 48% and, the GLA will retain 27% of local Business Rates, and 25% going back to MHCLG.
- 2.4 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.

### **2.5 Background**

- 2.6 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.

- 2.7 Income raised is currently allocated as follows; Harrow retains 48%, the GLA's retains 27%, and MHCLG retains the balance, 25%.
- 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 As Harrow is part of the London Pool pilot, Harrow will receive a proportion of the collective growth in London arising from the pool should this occur.

## **2.10 Harrow's National Non Domestic (NDR) retained amount for 2019/20**

- 2.11 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.
- 2.12 The forecast is required to be formally notified to MHCLG and preceptors. This is done by billing authorities having to complete a MHCLG 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.
- 2.13 The calculation of Harrow's NDR income figure for 2019/20 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 MHCLG 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

## 2.12 Table 1

### Projected NDR income calculation for 2019/20 (using 28/11/2018 data)

Local Authority	Harrow		
	£m		
Gross Rateable value - Rating List 2017	140,785,314	a	
Small Business Rate Multiplier 2019/20	0.48	b	
Inflation Assumption / CPI @ Sept 2018	2.30%	c	
Assumed Small Business Rate Multiplier 2019/20	0.491	d	b x c(+b)
<b>Notional gross yield figure</b>	<b>69,131,221</b>	<b>e</b>	<b>a x d</b>
<b>Less In year RV fluctuations - 1.00%</b>	<b>500,000</b>		
<b>Expected Notional gross yield figure</b>	<b>68,631,221</b>	<b>e</b>	
<b>Losses due to Small business rate relief</b>	<b>5,844,251</b>	<b>f</b>	
Change in notional gross yield	2.30%	g	
Projected small business rate relief 2019/20	5,978,669	h	f x g
<b>Losses due to Empty property exemptions</b>	<b>1,500,000</b>	<b>i</b>	
Change in notional gross yield	2.30%	j	
Projected Empty property exemptions 2019/20	1,534,500	k	i x j
<b>Losses due to Mandatory relief</b>	<b>5,761,377</b>	<b>l</b>	
Change in notional gross yield	2.30%	m	
Projected Mandatory Relief 2019/20	5,893,889	n	l x m
<b>Losses due to Discretionary relief</b>	<b>50,000</b>	<b>o</b>	
Change in notional gross yield	2.30%	p	
Projected Discretionary Relief 2019/20	51,150	q	o x p
<b>Additional Yield generated from SBR supplement</b>	<b>-500,000</b>		
<b>Less Cost of collection</b>	<b>244,000</b>		
	<b>-256,000</b>	<b>r</b>	
<b>Projected contribution to the pool</b>	<b>55,429,013</b>	<b>s</b>	<b>e-h-k-n-q-r</b>
Losses in collection 2%	1,108,580	t	
Losses due to appeals	1,000,000	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	
<b>Net contribution to the pool</b>	<b>53,320,433</b>	<b>z</b>	<b>s- t-u-v-w-x</b>
<b>Less Other Reductions - DCLG S31 Initiative 1 Reval Relief</b>	<b>250,000</b>		
<b>Less Other Reductions - DCLG S31 Initiative 2 Retail relief</b>	<b>1,333,908</b>		
<b>Contribution to pool</b>	<b>51,736,525</b>		
Less Central Share (25% to Government)	-12,934,131		
Less GLA Transport (27%)	-13,968,862		
<b>NDR Income retained = 48%</b>	<b>24,833,532</b>		

## **2.13 Reasons for a Lower / Higher Retention Amount in 2019/20**

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
- More occupiers claiming 80% mandatory charity relief ( eg school Academies')
- Insufficient new commercial properties being built to offset losses

2.15 The tax base used to calculate the 2019/20 rate retention amounts has however benefited from an increase in the Sept 2018 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. For the year commencing on 1<sup>st</sup> April 2019, 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.

2.18 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 Article 13 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.

## 2.21 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 2019-2020. 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 Harrow regarding Business Rates has been determined to be **£24.833m**, which is 48% of the estimated business rates to be retained. This amount will be reflected in the Council's Final Revenue Budget for 2019-20.

## 2.22 Performance Issues

The estimated NDR income figures above will become the actual NDR income for 2019/20, and will be used in setting the 2019/20 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;

	2014/15	2015/16	2016/17	2017/18
Non-domestic rates collected %	96.3%	94.1%	97.6%	96.8%

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.

## 2.23 Environmental Impact

None

## 2.24 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.

## 2.25 Equalities implications

None

## 2.26 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	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 3 December 2019		
Name: Baljeet Virdee	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 3 December 2019		



Name: Nimesh Mehta



Head of Procurement

Date: 3 December 2018

**Ward Councillors notified:**

NO

**EqIA carried out:**

No

**EqIA 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](mailto:fern.silverio@harrow.gov.uk)

### **Background Papers:**

None

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

**NO – CALL IN APPLIES**