BRENT COUNCIL	**General Purposes Committee** 22nd January 2013 **Report from the Deputy Director of Finance**
For Action	Wards Affected: ALL

Calculation of Business Rates Income 2013/14

1. Summary

1.1 This report sets out the calculation of the estimated income from National Non Domestic Rates (NNDR), also known as Business Rates, to be used for 2013/14. This figure is used in the calculation of the council tax for 2013/14. Regulations require that the calculation is agreed by 31st January prior to the start of the financial year. This is a new requirement under the Local Government Finance Act 2012 – previously all business rates income was passed over to central government and then redistributed to local government. From 2013/14 local authorities will keep a share of income raised.

2. Recommendations

To agree that the estimated income from NNDR (net rate yield) for 2013/14 be set at £106,307,048. Brent will retain 30% of this figure, equalling £31,892,114 (with 50% being paid to central government and 20% to the Greater London Authority.

3. Detail

3.1. Background

3.1.1. The Local Government Finance Act 2012 entails major changes to the funding of local government, one of the most important being the introduction of local Business Rates retention. Previously all business rates collected have been paid over to central government, in the form of the national NNDR pool. The government then redistributed the nationally collected amount to local authorities according to a very complicated formula for spending need. From 2013/14 this system has been changed, with 50% of the income raised still being paid to central government and then redistributed to local authorities, but with the other 50% being retained locally. In the case of London, the

Greater London Authority (GLA) receives 20%, leaving London boroughs with the remaining 30%.

3.1.2. The Department for Communities and Local Government (DCLG) has calculated a baseline figure as the starting point for the estimate of NNDR income to be raised by each local authority in 2013/14. This is based on proportionate shares of the estimated national income raised from NNDR in 2013/14 based on actual figures for 2010/11 and 2011/12. On this calculation Brent accounts for 0.468% of the national total. This equates to a total figure for Brent of £102.078m, of which Brent keeps £30.623m. However because Brent used to receive far from the pool than it paid in, it will receive a “top-up” payment of £46.534m, to bring it back to the position it would have been had the changes not been introduced.

3.1.3. The “baseline” figure of £30.623m (being Brent’s 30% share) is then fixed for future years, with the top-up payment being increased by RPI each year. If there is a growth in the total business rates income then Brent will keep 30% of any growth. However if there is a decline, Brent will need to find 30% of the shortfall. The 30% relates to the total estimated income of £102.078m.

3.1.4. The estimate for the actual income figure (or net rate yield) for 2013/14 is based on a return to the DCLG called the NNDR1. This has to be finalised by 31 January, and calculates the amounts to be paid to central government and to the GLA during the course of the year, as well as the figure to be used as part of Brent’s budget setting process.

3.1.5. Estimating this figure is extremely difficult, as there are many factors which can significantly affect the overall figure. There are several types of relief such as empty rates relief and charity relief which can change during the year. Estimates need to be made for changes in rateable value from new properties entering rating, or properties being take out of rating. Allowance also needs to be made for revaluations due to appeals against the Valuation Office (VO) determinations. These are very common and can lead to large refunds being backdated several years. Allowance also needs to be made for estimated losses in collection (i.e. non collection levels)

3.1.6. Because there are so many uncertainties, it is inevitable that the final figure at the end of 2013/14 will be different to the estimate. There will be a further calculation required each year (from late 2013/14 onwards) of a surplus or deficit on the NNDR part of the collection fund (as is already done for Council Tax). If the estimate agreed in this report proves too high, and income falls during 2013/14 a deficit will need to be declared, with Brent bearing 30% of the deficit, central government 50% and the GLA 20%. If the final figure is higher than the estimate, then a surplus will be declared with the relative shares being the same as for a deficit.

3.2 Estimating the net rate yield for 2013/14

3.2.1. As mentioned above the figure is based on the NNDR1 return to the DCLG. This is attached as Appendix 1.

3.2.2. The starting point is the aggregate rateable value for Brent as at 30 September 2012. This is a fixed figure based on the VO's valuations for all properties at Brent at that date. This is then multiplied by the multiplier (the rate in the pound charged for that year). This is shown in line 3 of the form - £124.465m.

3.2.3. There are a total of 36 rows before the final estimated rates yield is calculated. Some of these are calculation rows, and several do not apply to Brent (e.g. enterprise zones and rural relief). Some of the rows have relatively small amounts, and some are reasonably predictable as the current figure can be calculated as of now and is unlikely to vary significantly. To avoid over complicating matters, the section below only deals with the rows where figures are more prone to large fluctuations.

3.2.4. The biggest changes will relate to changes in rateable value from new properties or properties being taken out of rating (lines 33 and 34 of the NNDR1 form) and the adjustment relating to valuation appeals (line 35). The other main areas are empty rate relief (line 11) and losses in collection (line 21) These are dealt with in turn below

3.3. Changes in total rateable value

3.3.1. This is shown on lines 33 and 34 of the form (rate retention adjustments). This figure relates to changes anticipated from the total rateable valuation as at 30 September 2012 over the 12 months to September 2013 from new or deleted properties. This is very difficult to predict because it is not possible to accurately assess the valuations the VO will give to new properties, or how long it will take the VO to give a valuation. Therefore the figure used can only be an estimate.

3.3.2. Fortunately, three large new properties came in to rating shortly after 30 September (one hotel and two warehouses) with a total RV of over £3.5m. These can therefore be taken in to account. Allowance has also been made for the new Civic Centre as well as for some of the new units due to open nearby, as well as some properties coming out of rating (e.g. the Town Hall which will not be in rating for much of 2013/14). The overall estimate (line 33) is for an increase in RV of £7.49m which equates to rates income of £3.46m (line 34)

3.4. Adjustments due to appeals

3.4.1. This is shown on line 35 of the NNDR1 form. There are currently 1,196 appeals outstanding against the 2010 VO valuations. Many of these will be unsuccessful or lead to small reductions, and many will not be settled until after the 2013/14 year. However there are always some very large reductions and these will be backdated in most cases to April 2010, so the figure for the year will be very large. The DCLG has recommended that a figure of 5% be used unless better information is available, and it has used the 5% in it's calculations of authorities baseline figures. The 5% gives a figure roughly in line with the average in Brent for the last few years, so this figure has been used, equating to a reduction in rate yield of £5.965m.

3.5. **Empty rate relief**

3.5.1. There are various types of empty rate relief, which reduce the net rate yield. The figure will vary, partly due to economic conditions (e.g. properties owned by companies entering liquidation receive 100% relief). The figure used in line 11 is the average for 2011/12 and 2012/13 uprated for the annual RPI increase. This gives a figure of £4.606m

3.6. **Losses in collection**

3.6.1**.** This relates to amounts which are considered irrecoverable, and which will need to be written off. The figure of £2.1m used in line 21 is based on the average figure over recent years.

3.7. Final estimate and effect on Brent's budget

3.7.1. Using the figures outlined above, gives a final estimated rate yield for Brent for 2013/14 of £106,307,048 (line 36). Brent's 30% share of this is £31,892,114 (as shown in the NNDR summary at the end of the form). This is the figure which will be used in the overall budget calculation.

3.7.2. This figure exceeds the government baseline figure of £30.623m by £1.285m. This is therefore Brent's share of the growth in rates yield estimated for the next year. This is largely due to the effect of new properties recently entering rating or anticipated to do so over the next year (such as the Civic Centre). There is no real advantage in over or under estimating this figure, as there will be a need to declare a surplus or deficit at this stage next year.

4 Financial Implications

4.1 These are included in the detail above

5. Legal Implications

5.1. Section 5 and Schedule 3 to the Local Government Finance Act 2012 make amendments to the Local Government Act 1988 and they will effectively introduce a new system of Business Rates retention whereby local authorities share in any growth or contraction in the net rate yield for their authority. The aim of the change is to incentivise local authorities to seek to increase the rates yield of their area (e.g. by encouraging business expansion).

5.2. Under the changes, central government will retain 50% of the income (previously it received 100%). IN London the GLA receives 20%, and the boroughs the remaining 30%. Some boroughs (tariff boroughs where income exceeds the previous share received from the national pool) will have limits on the income they can retain, but for top-up boroughs including Brent there is no limit. Therefore Brent will retain 30% of any business rates growth, but will also have to bear 30% of any reduction.

5.3. Under draft regulations entitled Tthe Non Domestic Rating (Rates Retention) Regulations 2013 authorities will be required to estimate the net yield (i.e. business rates income) for their authority for the following year, by January 31st of each year, commencing January 2013. This estimate will be used to calculate the shares of income to be paid to central government and in London to the Greater London Authority, as well as the share to be retained by the local authority itself. The latter figure then feeds in to the overall budget for the Council, and the calculation of the Council Tax to be charged to local taxpayers. These draft regulations are currently not in force at the time of the drafting of this report. These draft regulations have been laid before Parliament under the Secretary of State's powers to make regulations regarding non domestic rates retention under the Local Government Finance Act 1988, and they are likely to be passed by both Houses of Parliament before the end of January 2013.

6. Diversity Implications

6.1. The proposals in this report have been subject to screening and officers advise Members that there are no diversity or public sector equality duty implications arising from the proposals in this report.

7. Staffing Implications

7.1. None arising directly from this report.

8. Background Information

Local Government Finance Act 2012

The Non Domestic Rating (Rates Retention) Regulations 2013.

NNDR draft billing list for 2013/14.

Anyone wishing to inspect the above documents should contact David Huberman, Finance Manager, Brent Financial Services, Brent Town Hall, Forty Lane, Wembley, Middlesex HA9 9HD. Telephone 0208-937-1478.

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