Brent	**General Purposes Committee** 6 January 2015 **Report from the Chief Finance Officer**
For Action	Wards Affected: ALL

Calculation of Business Rates Income 2015/16

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 2015/16. This figure is used in the calculation of the council tax for 2015/16. Regulations require that the calculation is agreed by 31January prior to the start of the financial year.

1.2. The final figure will be taken from the NNDR1 return to be submitted to central government by 31 January 2015. At the time of writing this report the NNDR1 return has not been issued by the Department for Communities and Local Government (DCLG). This report is therefore the latest estimate, incorporating the impact of announcements on NNDR within the Autumn Statement.

2. Recommendations

2.1 To agree the estimated income from NNDR for 2015/16 of £115m, with Brent's share of this being £34.07m.

2.2. To delegate to the Chief Finance Officer the authority to amend these figures to reflect any changes necessary once the final statutory calculation has been made.

3. DETAIL

3.1. Background

3.1.1. The Local Government Finance Act 2012 entailed major changes to the funding of local government, including the introduction of local Business Rates retention. Previously all business rates collected were paid 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 changed, with 50% of the income 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 DCLG calculated a baseline figure as the starting point for the estimate of NNDR income to be raised by each local authority in 2013/14. Because Brent used to receive more from the pool than it paid in, it receives a “top-up” payment (£47.44m in 14/15) to bring it back to the position it would have been had the changes not been introduced. This is uprated each year by RPI inflation only but is not updated to reflect changes in need.

3.1.3. If there is growth in the total business rates collected in the borough then Brent will keep 30% of that growth. However if there is a decline Brent will need to meet 30% of the shortfall.

3.1.4. The estimate for the actual income figure (or net rate yield) for 2015/16 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.

3.2. Estimating the net rate yield for 2015/16

3.2.1. The starting point is the aggregate rateable value for Brent as at 31 December 2014. The latest figure as at 8 December 2014 is £278.55m. This is very close to the figure as at 31/12/2013 of £278.7m, but this is by coincidence and includes the net effect of new and deleted properties, and revaluations. This is a fixed figure based on the Valuation Office’s (VO) valuations for all properties at Brent at that date. A multiplier is then applied to this rateable value as set by central government (the rate in the pound charged for that year, which for 2015/16 will be 48.0p in the £). This gives a figure of £133.7m. There are then a number of deductions for exemptions and discounts, as outlined below.

3.2.2. Estimating the final income figure is extremely difficult, as there are many factors which can significantly affect the overall figure. These include:

- Changes in rateable value from new properties entering rating or properties being taken out of rating
- Revaluations due to the backlog of appeals which, if successful, will be backdated in most cases to April 2010 (see paragraph 3.4.1)
- Empty and charitable reliefs
- Losses in collection

All figures quoted in the sections below relate to the overall figures (i.e. Brent’s share would be 30% of the figures mentioned).

3.2.3. Because there are so many uncertainties, it is inevitable that the final figure at the end of 2015/16 will be different to the estimate. A further calculation is required at the end of each year of a surplus or deficit on the NNDR part of the collection fund (as is also done for Council Tax). This calculation is also derived from the NNDR1 return. If the estimate agreed in this report proves too high, 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.

3.3. **Changes in total rateable value (estimated net growth)**

3.3.1. This figure relates to changes anticipated from the total rateable valuation as at 31 December 2014 over the 12 months to December 2015 from new or deleted properties. This is very difficult to predict because it is not possible to assess accurately 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. In 2013 there was a large increase in rateable value, due principally to the new Civic Centre and most of the occupied units in the new London Designer Outlet, as well as some new warehouses. The value of new properties in 2014 has been much lower, largely relating to remaining assessments for the Outlet, and a large new office block in Park Royal. For 2015, it is still anticipated that there will be some growth, although again much lower than in 2013. There may be some properties coming out of rating due to redevelopment (Brent House being an example). An allowance has been made for a net increase in rateable value of £2m, which equates to just under £1m of income, of which the Council's share is just under £300k. These figures do no take account of reductions due to revaluations, which are covered in 3.4 below.

3.4 Adjustments due to appeals

3.4.1. There are currently around 560 appeals outstanding against the 2010 VO valuations, which account for 18% of the total rateable value (approximately £50m of rateable value). Many of these will be unsuccessful or lead to small reductions, and some may not be settled until after the 2015/16 year. The government has committed to dealing with 95% of outstanding appeals by July 2015. However the most complex and high value cases may well be left until last in order to meet this target (there are currently 8 outstanding appeals, each with a rateable value of over £1m (totaling £16m rateable value in total). It is likely that there will be some successful appeals leading to significant reductions and these will be backdated in most cases to April 2010. The DCLG has allowed the anticipated costs of backdated refunds (from April 2010 to March 2014) to be spread over five years, to avoid large fluctuations in income and this has been reflected in calculating the overall figure for the year. An allowance was made in the 2013/14 accounts for £6.1m of refunds to be made for the years 2010/11 to 13/14, for all outstanding appeal cases as at 31 March 2014. Spreading Brent's share of this over five years amounts to £366,000 per annum, which reduces the retained income figure for the Council.

3.4.2. The average outcome for appeals settled to date would indicate that this provision level was fairly accurate, but with so many appeals outstanding this could still change (particularly if the high rateable value cases eventually have a low or high average reduction). Any revaluations will also have an effect on 2014/15 and 2015/16 as well. An allowance has been made for an average 6% reduction for outstanding appeals, which is in line with resolved cases to date, and also with the provision allowed for as above. This was included in the retained income calculation figure for 14/15. For 2015/16 a 6% average reduction on outstanding appeals would reduce the total debit by approximately £1.5m

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), and by the speed with which properties which have fallen out of use are taken out of rating. A figure of £4.6m has been used, which is largely based on the current figure for 2014/15, allowing for anticipated changes. The figure has reduced this year, largely due to properties in the Oriental City complex being deleted from the list.

3.6. Charity relief

3.6.1. Organisations which are charities or charity equivalent automatically receive 80% relief. In addition discretionary relief can be granted to charities on the remaining 20% of the bill, and to non-profit making organisations. An allowance has been made of £7.5m, based on the 2014/15 figure and anticipated changes in 2015. The bulk of the figure is accounted for by schools (academies, foundation and voluntary aided) and further education colleges.

3.7. Losses in collection

3.7.1 This relates to amounts which are considered irrecoverable, and which will need to be written off. A figure of £2.4m has been used, based on the 2% average figure over recent years.

3.8. Other

3.8.1 These relate to government schemes to provide additional reliefs to small business and to the majority of retail establishments, with the cost to Brent of these discounts (i.e. Brent's 30% share) being funded by a special government grant. The relief for retail establishments will increase from £1,000 in 2014/15 to £1,500 in 2015/16. The overall effect is a reduction of £4.0m.

3.9. Final estimate

3.9.1 Using the figures outlined above, gives a final estimated rate yield for Brent for 2015/16 of approximately £115m. Brent's 30% share of this (after allowing for the effect of spreading the appeals provision as per paragraph 3.4.1.) is estimated at £34.07m.

4. FINANCIAL IMPLICATIONS

4.1 The estimated of the retained business rate figure for Brent to be used in the overall budget calculation for the Council is currently £34.07m. However the final figure will be derived from the NNDR1 return to be submitted to DCLG by 31 January 2015.

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 the Non Domestic Rating (Rates Retention) Regulations 2013 authorities are required to estimate the net yield (i.e. business rates income) for their authority for the following year, by 31 January each year. 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.

6. DIVERSITY IMPLICATIONS

6.1. None arising directly from 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.

Anyone wishing to inspect the above documents should contact David Huberman, Finance Manager, Brent Financial Services, Brent Civic Centre, Engineers Way, Wembley, Middlesex HA9 0FJ. Telephone 0208-937-1478.

CONRAD HALL

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