Brent	**General Purposes Committee** 21 January 2014 **Report from the Chief Finance Officer**
	Wards Affected: ALL
Calculation of Business Rates Income 2014/15	

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 2014/15. This figure is used in the calculation of the council tax for 2014/15. Regulations require that the calculation is agreed by 31st January prior to the start of the financial year.

1.2. At the time of writing the report the Government has not finalised the precise details of the calculation for 2014/15, to take account of the changes to business rates announced in the Autumn Statement in December 2013.

2. Recommendations

2.1 To agree the estimated income from NNDR for 2014/15 be set at £113.82m. Brent will retain 30% of this figure, equalling £34.146m (with 50% being paid to central government and 20% to the Greater London Authority),

2.2. To delegate to the Chief Finance Officer authority to amend these figures to reflect any changes necessary once the final guidance from the Government has been produced.

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 Department for Communities and Local Government (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. The figure for Brent was £102.078m, of which Brent would keep £30.623m. However because Brent used to receive more from the pool than it paid in, it receives a “top-up” payment (£46.534m in 13/14) to bring it back to the position it would have been had the changes not been introduced.

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 2014/15 is based on a return to the DCLG called the NNDR1. Normally, 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. However because of various changes introduced in the Autumn Statement (including extension of small business relief, and a £1,000 reduction in the rates bills for most retail establishments) there has been a delay in the DCLG issuing the NNDR1 form for 2014/15. The government has stated that local authorities will be fully reimbursed for the cost of these changes and has produced a draft NNDR1, which has been used as the basis for producing the figures in this report. It is possible that as more details are released by the DCLG, it might be necessary to amend the calculation, so it is recommended that the Chief Finance Officer be given delegated responsibility the amend the figure in this report if appropriate.

3.2. Estimating the net rate yield for 2014/15

3.2.1. The starting point is the aggregate rateable value for Brent as at 31 December 2013. (£278.529m) This is a fixed figure based on the VO’s 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 2014/15 will be 47.1p in the £). This gives a figure of £131.187m.

3.2.2. Estimating the 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 2014/15 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). 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 2013 over the 12 months to December 2014 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. 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 likely increase for 2014 is much lower, but it is still anticipated that there will be some growth (e.g. the remaining units at the London Designer Outlet). An allowance has been made for an increase in rateable value of £2m, which equates to £942k of income.

3.4. **Adjustments due to appeals**

3.4.1. There are currently around 1,000 appeals outstanding against the 2010 VO valuations, which account for 24% of the total rateable value (approximately £68m of rateable value). Many of these will be unsuccessful or lead to small reductions, and some will not be settled until after the 2014/15 year. However, it should be noted that the government has committed to dealing with 95% of outstanding appeals by July 2015. 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 indicated that it will allow the 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 has been made for £11.5m of refunds to be made, which is the best estimate available at present.

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). A figure of £5.5m has been used, which is largely based on the figure for 2013/14, allowing for known changes.

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 £7.45m, based on the 2013/14 figure and anticipated changes in 2014.

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 £2.1m has been used, based on the average figure over recent years.

3.8. Final estimate

3.8.1. Using the figures outlined above, gives a final estimated rate yield for Brent for 2014/15 of £113.82m. Brent's 30% share of this is £34.146m.

4. Financial Implications

4.1 It is proposed that the estimated retained business rate figure for Brent of £34.146m will be used in the overall budget calculation for the Council. This figure exceeds the equivalent figure for 2013/14 of £31.892m by £2.254m.

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 January 31st of 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. 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.

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.

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