LONDON BOROUGH OF CAMDEN	WARDS: All

REPORT TITLE
Approval of Resource Base for Business Rates
(CS/2019/05)

REPORT OF
Cabinet Member for Finance and Transformation

FOR SUBMISSION TO:	DATE:
Cabinet	16th January 2019
Council	21st January 2019

SUMMARY OF REPORT

This report asks the Cabinet to approve the estimate of business rates yield for 2019-2020. Camden is allowed to retain a proportion of the business rates collected, the purpose being that this encourages Councils to promote economic growth, which in Camden's case can be reinvested back into Our Camden Plan objectives.

The report is coming to the Cabinet and then Full Council because the yield forms an important part of the budget and tax setting report before Cabinet on 20 February 2019.

Local Government Act 1972 – Access to Information
No documents requiring listing were used in the preparation of this report

Contact Officer:
Mark Tate (Head of Council Tax and Business Rates) 4th Floor, 5 Pancras Square, London, N1C 4AG
Telephone: 020 7974 6442
Email: mark.tate@camden.gov.uk

RECOMMENDATIONS

That Cabinet is asked to recommend to Council the following;

1. That the approach and assumptions for the calculation of the Council's business rates yield as set out in Appendix 1 be approved.

2. That, in accordance with the Non-Domestic Rating (Rates Retention) Regulations 2013, the amount calculated by the London Borough of Camden as its business rates yield for the year 2019-2020 shall be £656million as shown in line 17 of Appendix 1.

3. That authority be delegated to the Executive Director Corporate Services, in consultation with the Cabinet Member for Finance and Transformation, to make any adjustments to the calculation of the estimated business rates yield for year 2019-20. This is to reflect any technical amendments to the calculations or late regulatory changes made by the Treasury or in respect of the London Pilot Pool.

4. That authority be delegated to the Executive Director Corporate Services to submit the notification of the calculation of the estimated Non-Domestic Rates income to the Secretary of State and the Greater London Authority.

The Council is asked to agree the Cabinet's recommendations above

Signed: Agreed, Jon Rowney, Executive Director Corporate Services

Date: 4 January 2019

1. CONTEXT AND BACKGROUND

1.1. This report estimates the business rates yield for 2019-2020, of which Camden is allowed to retain an element described in more detail in section 2 below. This element forms an important part of budget setting for 2019-2020 and the amount that Camden will be able to retain from the yield of £656 million is set out in section 8.

1.2. The principle of business rates retention is to give councils the incentive to encourage growth in the business rates collected by allowing them to retain a share of any increase over the business rates baseline as determined by the Government.

1.3. For 2018-2019 Camden formed part of the 100% London business rates pool along with the 32 other London Authorities and the Greater London Authority (GLA). Any growth in the pool will be divided between the London Boroughs (64%) and the GLA (36%). The latest position on the pool outturn is shown in section 8.

1.4. The situation for 2019-2020 is that the pool will continue into its second year of operation, subject to approval by the Leader of the Council. The shares will be change to 75% for Local Government and 25% for Central Government. The 75% Local Government share will be divided 48%/27% between Boroughs and the GLA. There will be a corresponding change to the tariff paid to the Government by Camden to reflect the reduced business rates income.

2. PROPOSAL AND REASONS

2.1 The figures contained in the report become the effective starting point for setting the Budget for 2019-2020. As such, the Cabinet is asked to consider the calculations within it and satisfy themselves that the yield figure calculated is sufficiently robust on which to base next year's budget.

2.2 The estimate for 2018-2019, approved by Cabinet on 24 January 2018, was for a yield of £642.0m. The current position is that the yield is set to fall £3.5 million below this figure, a small variance of 0.54%. This shortfall will be combined with gains and losses from other London Boroughs within the London Pilot pool.

2.3 The starting point for the 2019/2020 calculation is to take the business the rateable value at 3 October 2018 of £1.618billion and multiply by the amount payable in the £ which is 49.1p. This produces a gross rates figure from which various amounts for reliefs, costs of collection and bad debt totalling are deducted.

2.4 Predicted net growth of £14.4million rates income has been added (after allowing for HS2 disposals). The final anticipated yield, after reliefs is £656million.

3. OPTIONS APPAISAL

3.1 The Council could;

- Adopt the forecast as recommended.

  The forecast has been calculated following extensive research and by calling on the knowledge gained from previous years of the new retention system. The forecast represents the best estimate of yield for 2019-2020

- Decide upon a different figure for recommended yield.

  A higher or lower figure for yield could be determined, bearing in mind the impact on the Council's budget and the duty to set a balanced budget. The Cabinet could decide that the forecast has been under or overestimated, or decide upon another collection rate. However, the business rates yield is a key component of the budget setting for 2019-2020 for which a report is coming to Cabinet on 20 February 2019. In order to compile that report, the Cabinet has to agree a figure for yield at this meeting.

4. WHAT ARE THE KEY IMPACTS / RISKS? HOW WILL THEY BE ADDRESSED?

4.1 The key risk is that the yield has been over estimated, which would place a strain on the budget for 2019-2020 and possibly lead to an impact on services. There are four key elements in the calculation:

- New development
- Demolished property and commercial property converted to domestic
- Appeals
- Collection rate

4.2 In terms of new development, the calculation of the rateable value, which governs the rates payable, is carried by the Valuation Office Agency of Her Majesty's Revenue and Customs. Camden officers together with the Valuation Officer to make sure new developments are identified and accompanied by accurate estimates of rateable value. A great deal of success has been achieved in this area. However, there is room for inaccuracy when estimating the date from which a property will be occupied and so begins to contribute to rate yield. In the forecasts in this report, a contingency has been built in to allow for this.

4.3 The situation is similar for property that is demolished to make way for new developments and properties converted to domestic. Values are accurate but the date works start can be variable. Once again, contingency has been built into the calculations.

4.4 Appeals are dealt with by the Valuation Office under a new system called check, challenge, appeal. This system was introduced for the 2017 revaluation. No data is yet available as to the likely scale of reductions from the new valuations. The government has indicated that there may be reductions equivalent to 4.45% over the life of the list and provision of £34 million has been made to match this. This figure is shown in line 6 of Appendix 1.

4.5 Finally, the collection rate for 2019-2020 has been set at 99.0%. The collection rate for this year, 2018-2019 is likely to be just above 99.0%, which is slightly lower than that achieved last year. Camden, along with other London Boroughs, has an increasing number of business rates avoidance cases that reduce the amount collected. A rate of 99.00% has therefore been used in the calculation, allowing for losses of 1%.

4.6 The key drivers of yield are ultimately in the hands of others. Developers will decide how quickly they move building works along, according to market conditions and interest from prospective occupiers. The Valuation Office will decide what rates are payable for every new building and how much in terms of rateable value reduction is agreed for each appeal.

4.7 Where Camden can take action is to ensure that rates are collected effectively and efficiently. The business rates team has an excellent reputation in this regard, both by explaining calculations to ratepayers and encouraging them to pay promptly. The team will continue to bring newly completed buildings to the attention of the Valuation Officer promptly and lobby to ensure rateable value assessments are made as soon as possible.

4.8 The 2019-2020 forecast will be monitored monthly in order to identify potential shortfalls or surpluses at an early stage to enable budget adjustments to be made.

5. LINKS TO OUR CAMDEN PLAN

5.1 Creating conditions for and harnessing the benefits of economic growth is strategic objective in Our Camden Plan. It is vital to attract new business and investment to the Borough, which will increase employment opportunities and put a brake on the increasing levels of unemployment. Creating a platform for sustainable economic growth is key to the future of our young people. One of the incentives to achieve this goal is the retention of a modest part of the extra rates yield, which can be reinvested back into the Camden Plan objectives.

6. CONSULTATION/ENGAGEMENT

6.1 In January 2019, the Finance Department will carry out its annual Camden Business Community Consultation with business ratepayers about the budget proposals for next year. Ratepayers will be invited to comment on the overall budget process and planned expenditure, of which income from business rates plays a key part. Any comments received will be considered in the context of the overall budget and included in the budget report.

7. LEGAL IMPLICATIONS

7.1 Section 1 of the Local Government Finance Act 2012 amended the Local Government Finance Act 1988 so as to allow for local retention of business rates, enabling local authorities to retain a proportion of the non-domestic rates generated in their area.

7.2 The Council is required, by 31 January each year, to estimate the total income which it will collect from business rates in the forthcoming year, and to notify both the GLA (Greater London Authority) and the Secretary of State of this amount. 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 Executive Director Corporate Services to fulfil the notification requirements described above. If an authority fails to comply with the requirement to provide such an estimate in accordance with the Regulations or if the Secretary of State believes any of the amounts notified are not likely to have been estimated or calculated in accordance with the Regulations the Secretary of State may make an estimate or calculation of the amount or amounts. In such cases the Secretary of State is required notify the authority and any relevant precepting authority of the amount or amounts estimated or calculated and the reason for making the substitute estimate or calculation.

7.3 Section 31A of the Local Government Finance Act 1992 places a duty on a local authority to calculate its budget requirement for each financial year. The budget requirement includes the revenue costs, which result from the capital investment decisions of the authority. These costs include capital financing costs (interest and loan repayment provision) and running costs. 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 Councils meets its statutory duty to balance its budgets.

8. RESOURCE IMPLICATIONS

8.1 The figures in appendix 1 form one part of the Council's assessment of income in 2019/20. The loss of business rates due to appeals has had an ongoing and significant effect in the last 6 years. Provision has been made in respect of previous and future years.

8.2 Providing all authorities agree to its continuation, the net retained business rates income for 2019/20 will feed into the London Pilot Pool. It is important to note that Camden's estimated share of growth under the pool will not be known until all participants submit their financial estimates for 2019/2020. However, London Councils have provided an early estimate of £4m retained income from growth for Camden in 2019/20, based on an uprating of 2018/19 data for inflation.

8.3 Final allocations of retained income for 2018/19 will be confirmed after the end of the financial year, but early indications are that Camden could benefit in the region of £5m.

9 TIMETABLE FOR IMPLEMENTATION

9.1 If agreed at the Council meeting on 21st January 2019, the tax base will be used to calculate the budget requirement put forward in the budget setting report 20th February 2019.

9.2 Business rates bills do not depend on the calculation directly. They are calculated using the rateable value set by the Valuation Office Agency and the multiplier set by Government. These will be sent out in the middle of March 2019 and those retail premises with a rateable value of below £51,000 will receive one third off their bill as announced in the Autumn budget.

10 APPENDICES

APPENDIX 1 – Summary of yield calculations
APPENDIX 2 - Notes on appendix 1

REPORT ENDS

NATIONAL NON DOMESTIC RATES YIELD 2019-2020		APPENDIX 1
1	Number of properties as at 3 October 2018	18,957
2	Rateable value of these properties	1,618,347,062
3	Revised rateable value of these properties	1,618,347,062
	Charges	£
4	Gross rates payable (rateable value x 0.491)	794,608,407
5	Changes to gross rates payable due to new and demolished property	14,436,784
6	Loss in rates payable for the 19/20 financial year due to appeals of 4.45% or 2.1p	-33,985,288
7	Extra amount paid by business over £51,000 rateable value to fund small business relief	18,809,469
	Reliefs	
8	Cost of small business relief	-5,967,060
9	Mandatory charity relief	-87,591,379
10	Relief for partly occupied properties	-855,868
11	Relief for empty premises	-28,379,469
12	Retail relief	-8,000,000
13	Discretionary charity relief	-322,905
14	Funded discetionary reliefs:	-1,301,821
	Other allowances	
15	Costs of collecting business rates	-1,307,964
16	Losses due to non payment	-4,142,907
	Net rates yield	
17	Final rates yield	656,000,000

APPENDIX 2

The calculation begins with a statement of the number of business rates properties on the rating list at 3 October 2018. The rating list is the list of rateable values held by the Valuation Office Agency, which form the basis on which the business rates service calculates bills.

1. The number of commercial properties.

2. The total rateable value.

3. Rateable value adjusted for the effect of appeals up to 31 March 2019, if required.

4. The potential rates income for 2019-2020 is then calculated by multiplying the total rateable value by the business rates multiplier 49.1p.

5. The growth in rates from new properties and the loss in rates from demolished property and that converted to domestic multiplied by 49.1p

6. The potential rates loss from appeals against the rateable value of existing property.

7. An additional levy of 1.3p in the £ on larger businesses over £51,000 rateable value which funds the small business relief in line 8. This value considerably exceeds the small business relief awarded in Camden because Camden has many more large businesses than small. Nationally though, these figures balance out.

8. Small business relief awarded to properties under £15,000 rateable value.

9. Deduct the cost of mandatory charity relief in respect of registered and recognised charities.

10. Deduct cost of relief for premises which are partly occupied and for which the Valuation Officer has issued a formal certificate.

11. Deduct the loss of rates for premises which are empty, mainly properties which have been empty for the first three to six months and empty listed buildings

12. Deduct the cost of the new retail relief to be introduced from 1 April 2019.

13. Deduct discretionary charity relief for charitable organisations.

14. Deduct the cost of funded discretionary reliefs.

15. Allowance for cost of collection. The administrative costs of business rates collection is shared by the Government and the GLA so a deduction from income is permitted to meet those costs.

16. Estimate of losses in collection – see paragraph 4.5 in the main report.

17. Final business rates yield.