	London Borough of Hammersmith & Fulham **Council** **30 January 2013**

BUSINESS RATES FORECAST 2013-14	
Report of the Leader : Councillor Nicholas Botterill	
Open Report	
Classification - For Decision **Key Decision: Yes**	
Wards Affected: All	
Accountable Executive Director: Jane West **Executive Director of Finance & Corporate Governance**	
Report Author: Steve Barrett **Head of Revenues and Benefits**	**Contact Details:** Tel: 020 8753 1053 E-mail: steve.barrett@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1 The introduction of the business rates retention scheme and associated reforms of local government finance require the Council to forecast the amount of Business Rates (National Non-Domestic Rates or NNDR) that it will collect each financial year together with the amounts that it is permitted to retain, and those it will pass to the Government and Greater London Authority (GLA). A draft forecast was sent to Government on 7 January 2013 and must be approved by full Council on 30 January 2013 for submission in final form to Government by 31 January 2013.

1.2 As the forecast also sets out the Business Rates that the Council expects to retain as part of its income, this is an integral part of setting the revenue budget and Council Tax.

1.3 The Council is permitted to retain 30% of the net business rates collected, with 50% payable to the Government and 20% to the GLA. The forecast is that the Council will collect £164.20m of business rates, with £49.26m being retained by the Council in 2013/14, less a tariff of £2.83m reducing the amount retained to £46.43m.

1.4 However, this expected level of collection is below the safety net threshold set for the Council by the Government and means that the Council will receive a safety net payment of £3.55m to protect its income at £49.98m for 2013/14.

2. RECOMMENDATIONS

2.1 Council is requested to:

Agree the Business Rates forecast as summarised in Table 1 below and set out in more detail in NNDR1 at Appendix A:

Table 1:
Forecast Yield and Amount Retained by the Council (before tariff)

	£m
Projected net yield	164.20
Amount payable to Government	82.10
Amount payable to GLA	32.84
Amount retained by the Council	49.26

2.2 Note that the Council's income will be protected at £49.98m under the new systems safety net arrangements.

3. REASON FOR DECISION

3.1 The Council must formally agree its Business Rates forecast in preparation for the introduction of the business rates retention scheme on 1 April 2013, as the element of the rates that the Council can retain forms part of the revenue budget for 2013/14.

4. BACKGROUND

4.1 The Council, as a billing authority, is required to approve a business rates forecast each year and to pass this information to the Government and precepting authorities by 31 January 2013. In principle, this forecast is similar to the setting of the Council Tax base.

4.2 The Non-Domestic Rating (Rates Retention) Regulations 2013 set out in detail how the forecast must be prepared and the draft statutory return to the Government, NNDR1 is set out in Appendix A. The forecast is made up as follows:

- estimated Gross Business Rate Yield (the rateable value multiplied by the national business rates poundage (£0.462) ; less

- adjustments for empty rate relief; less
- adjustments for small business rate relief; less
- adjustments for Mandatory Charity Relief; less
- adjustments for Discretionary Rate Relief; less
- adjustments for enterprise zones, new builds, renewable energy schemes and other deductions; less
- costs of collection; less
- losses on collection; less
- expected losses on appeals; equals
- Net Rate Yield.

4.3 Of the Net Rate Yield:

- 50% is payable to the Government, known as the 'Central Share';
- 30% is retained by the Council; and 20% is payable to the GLA, known collectively as the Local Share.

4.4 Any changes from the forecast position to the final actual position will be taken into account at the end of the financial year. The Council will, as in past years, submit an NNDR3 return after the accounts are closed which will confirm the year-end position. The Government has not yet finalised either its regulations or the NNDR1 return and therefore the estimates may vary from those set out in Appendix A.

5. PROPOSAL AND ISSUES

5.1 The Council has a substantial business rates base, with rateable values totalling £456.5m at 30 September 2012. When multiplied against the nationally set rate poundage this provides a gross yield of £211m.

5.2 As set out in Appendix A the net yield, after all proposed deductions is £164.2m. A major reason as to why the net yield is forecast to be so much lower than the gross yield is the impact of appeals. Appeals have a double impact:

- They permanently reduce the underlying business rates base.
- They have a one-off impact regarding prior year refunds.

5.3 Data provided by the Valuation Office Agency (VOA) shows that there are still 1,550 outstanding appeals with a total rateable value of £175m on the 2010 rating list and 275 outstanding appeals from the 2005 rating list, total rateable value £24m. This means that 38% of the Council's current rateable value base is subject to appeal and 7% of the 2005 list. Of the appeals 258 relate to Shepherds Bush Westfield, which are definitely proceeding. It is estimated that these will permanently reduce the yield by £10m per annum.

5.4 Appeals are determined by the VOA and are outside the Council's control. Forecasting the outcome of appeals or indeed changes in the rate base generally with any accuracy is challenging. The Council does not know which appeals will be considered and decided in the coming financial year and what the outcome and impact on the business rate yield might be.

5.5 In the absence of any better information it is proposed that the Council sets its local forecast on the assumption that its losses on appeals will be 28% for Westfield (based on actual reductions to date) and 10% for all other properties in the borough respectively. The final outturn may well differ from this. The position could be better or worse. It is recommended that Council agrees the forecast as set out in paragraphs 2.1 and **Appendix A**.

5.6 The amount of business rates collected now directly matters to the council. Previously all such income was passed to the government. From 2013/14 30% will be kept by the council under the new business rates retention scheme. The key elements of the new system, as they impact on Hammersmith and Fulham, are set out in Appendix B.

5.7 Under the starting point of the new system Hammersmith and Fulham is budgeting to be £4.054m worse-off. This is because what is actually expected to be collected (the LBHF 30% share), as set out in this report, is significantly lower than what is assumed within the system. The gross loss is £7.602m but safety net arrangements cap the loss at £4.054m.

5.8 There are obvious shortcomings in the datasets available from the VOA. The council continues to lobby on how appeals are handled within the business rates retention scheme. Authorities should gain or lose dependant on how they deliver economic growth, not on how well the VOA performs locally.

6. OPTIONS AND ANALYSIS

6.1 The Council has no option other than to approve a forecast. Members may alter the forecast, but ultimately, a more pessimistic forecast would have no net effect as it would be balanced by extra safety net grant. A more optimistic forecast would only benefit the council if it took us above the safety net level (i.e. increased the LBHF share by £3.548m). The danger in going above the safety net level is that it could be neutralised by actual events and mean that the Council either uses reserves to fund revenue expenditure or will need to make greater savings in 2014-15.

6.2 The lack of transparency around the appeals process makes it very difficult to produce any realistic assessment of the actual business rates income receivable in 2013/14. Given the sheer volume of appeals, and their potential high impact (as demonstrated at Westfield), Officers consider that the only prudent assumption that can be made is that the safety net arrangements will be triggered.

7. CONSULTATION

7.1 There are no specific consultation issues relating to this report

8. EQUALITY IMPLICATIONS

8.1 There are no equality implications arising from this report.

9. LEGAL IMPLICATIONS

9.1 As set out in paragraph 3.1 the Council is required to approve a National Non-Domestic Rates forecast in preparation for the introduction of the business rates retention scheme to be brought into effect from 1 April 2013 by amendments to the Local Government Finance Act 1988 and by the Local Government Finance Act 2012 Section 1, Schedule 1.

9.2 Section 151 Officers are also required under the Local Government Act 2003, Part 2, Section 25, to report on the robustness of the estimates made for the purpose of calculating the Council Tax and the adequacy of reserves. The National Non-Domestic Rates Forecast forms part of these estimates.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1 These are addressed throughout the report.

11. RISK MANAGEMENT

11.1 This is a statutory process and any risks are monitored through the Council's MTFS process.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Local Government Finance Acts 1988 and 2012	S. Barrett Ext. 1053	FCS - 2nd Floor Town Hall Extension

Appendix A – National Non-Domestic Rates Return 1
Appendix B - Business Rates Retention Scheme