

CABINET

25 January 2018

REPORT OF THE PORTFOLIO HOLDER FOR ASSETS AND FINANCE

BUSINESS RATES INCOME FORECAST 2018/19

PURPOSE

To report to and seek endorsement from Members on the Business Rates income forecast for 2018/19.

RECOMMENDATIONS

1. Members approve the Business Rates income forecast for 2018/19 and subsequent NNDR1 form for submission to DCLG by 31 January 2018, in line with the scheme of delegation.
2. Should material amendments be required to the forecast NNDR1, Cabinet authorise the Executive Director Corporate Services, in consultation with the Leader of the Council, to make such required amendments as necessary; and
3. Members note discretionary relief granted to qualifying bodies in line with the existing policy.

EXECUTIVE SUMMARY

The Department for Communities and Local Government (DCLG) requires that the Business Rates income forecast is formally approved by the Authority prior to submission – in line with local Governance arrangements. Business Rates income forms a significant part of the Council's core funding total under the Business Rates Retention Scheme. As such the forecast income from Business Rates will have a significant impact on the Council's budget and Medium Term Financial Strategy (MTFS) going forward.

A National Non-Domestic Rates (NNDR1) forecast has been prepared following receipt of detailed guidance received from DCLG. It should also be noted that while the DCLG issued updated tariff figures with the Provisional Local Government Finance Settlement in December, this has now been further amended to take account of late notice adjustments by the VOA to take account of further revisions following the 2017 Revaluation exercise. The updated tariff figures are now reflected within the forecasts detailed within the report.

The three key issues with regards to the Business Rates Retention Scheme are:

- a) There is a significantly increased risk on the level of funding retained under the system as individual elements (such as appeals and void levels) have the potential to adversely alter the monetary value of this major source of income – retained business rates represents c.50% of the Council's net external funding requirement;

- b) It also transformed the Council's role in the collection process in terms of managing the local Business Tax base as collection levels will directly impact on the Council's funding resources, and
- c) The payment of new burdens (Section 31) Grants in line with projected estimates.

For 2018/19, the NNDR1 has been completed and continues to be mindful of the recent national revaluation in 2017. It also follows that the risk of appeals increases substantially when a new list is created.

The estimates included in the NNDR1 form for 2018/19 (as attached at **Appendix A for Members information**) have been prepared on the basis of instructions & guidance from DCLG informed by local conditions. However, there continue to be some uncertainties and risks around the methodology used in preparing the forecast return – specifically the treatment of:

- The level of inflation affecting the future increases to the multiplier;
- Forecast levels of growth in business rates;
- The estimated level of mandatory and discretionary reliefs;
- The estimated level of refunds of Business Rates following the Appeal process; and
- Finalisation of the ongoing treatment of Section 31 Grant funding (including Small Business Rate Relief Grant) – which could affect the calculation of any levy payment and thereby reduce retained Business Rate income;

to inform the projected business rates levels for 2018/19 and future years.

Uncertainty also remains over the work progressing with regard to business rates retention (and the associated impact on the Council's business rates income and associated baseline and tariff levels) – it has recently been announced that Councils will be able to retain 75% of business rates collected from 2020/21 rather than 100% as previously planned. In addition, the Government are also consulting on a review of the distribution methodology, the 'Fair Funding Review' as well as the planned Business Rates Reset (when a proportion of the growth in business rates achieved since 2013/14 will be redistributed) - both of which will also take effect from 2020/21. There is a high risk that this will have a significant effect on the Council's funding level from 2020/21

Key assumptions have been made which include national trend information from LG Futures and the Institute for Revenues Rating and Valuation in order to be able to estimate lost yield. This also includes an annual allowance for appeals as 4.7% of collectable debit. It should be noted that the multiplier will go up by RPI each year – 3% in 2018/19 followed by 2.4% p.a. for 2019/20 and 1.9% for 2020/21 (in line with Office for Budget Responsibility - OBR forecasts). Assumed growth/inflation of 2.0% has been assumed thereafter – as the revised Business Rates Retention scheme (indications are this will now be up to 75%) should be in place from 2020/21 (at the latest).

The process for completion of NNDR1 by the statutory deadline of 31st January may be subject to further clarification from DCLG.

It is therefore recommended that should material amendments be required to the forecast NNDR1 prior to the statutory deadline of 31st January then these be delegated to the Executive Director Corporate Services in consultation with the Leader of the Council, with an update provided to Cabinet.

In addition it should be noted that the value of discretionary relief granted to charities and non-profit making bodies from 1 April 2017 to date is **£20,570**.

OPTIONS CONSIDERED

Not applicable

RESOURCE IMPLICATIONS

The estimate of Business Rates income collected and the submission of the NNDR1 return is a key stage in the budget setting and resource planning process of the Council, and will be used in preparing the Medium Term Financial Strategy 2018/19.

Four key issues in completing the forecast are:

1. the level of appeals estimated to be repayable in 2018/19;
2. the level of empty / void properties;
3. recovery levels including an allowance for bad debts; and
4. the level of future mandatory and discretionary relief.

Income from Business Rates Retention	NNDR1	Draft MTFS /	Variance
	January 2018 2018/19	Budgeted 2018/19	
Collectable	£33,530,162	£34,818,608	£1,288,446
Transitional adj. to be paid to Central Govt.	(£703,652)	(£735,557)	(£31,905)
Cost of Collection	(£90,018)	(£91,080)	(£1,062)
Estimated yield	£32,736,492	£33,991,971	£1,255,479
Authority Retained share	£13,094,597	£13,596,788	£502,191
Less: Tariff	(£9,935,598)	(£9,854,302)	£81,296
Total	£3,158,999	£3,742,486	£583,487
Less: Authority Baseline	(£2,249,465)	(£2,249,465)	-
Total Growth	£909,534	£1,493,021	£583,487

The estimated net yield of £13,094,597 retained by the Council (after the Preceptors and Central Share) is held within the Collection Fund (compared to a budgeted yield of **£13,596,788**). This is reduced by the tariff payable of **£9,935,598 (£9,791,708** in 2017/18) and the 50% levy on business rates in excess of the Government assessed baseline. **Reduced funding of £502,191 (subject to the increased tariff payable of £81,296 less reduced levy payment of £49,749 and increased S.31 Grant income of £226,906)** is reported when compared to the Draft MTFS forecast.

Once the projected deficit for 2017/18 of **£222,336** and forecast Section 31 Grant & projected levy changes are taken into account, an **overall reduction in funding of £529,167** is reported for 2018/19.

This is mainly due to increased uncertainty and therefore contingency provision for the planned works at Ventura Park and an increased provision for appeals and mandatory relief, following the 2017 revaluation and updated information from Analyse Local – the provision for appeals for 2018/19 equates to 4.8% of the net collectable business rates.

While there is an impact on the MTFs for 2018/19, projections over the remaining medium term planning period are broadly in line with the Draft MTFs projections to 2022/23.

This will be updated within the final MTFs report in February 2018.

LEGAL/RISK IMPLICATIONS BACKGROUND

Business Rates is a highly complex and volatile tax and it is exceptionally difficult to forecast movements over a short to medium term with great accuracy. Due to ongoing uncertainties and the anticipated late notification from DCLG clarifying the guidance and associated treatment of key factors within the return, this adds a significant amount of uncertainty and risk to the projections contained within the return.

Uncertainty also remains over the work progressing with regard to business rates retention (and the associated impact on the Council's business rates income and associated baseline and tariff levels) – it has recently been announced that Councils will be able to retain 75% of business rates collected from 2020/21 rather than 100% as previously planned. In addition, the Government are also consulting on a review of the distribution methodology, the 'Fair Funding Review' as well as the planned Business Rates Reset (when a proportion of the growth in business rates achieved since 2013/14 will be redistributed) - both of which will also take effect from 2020/21. There is a high risk that this will have a significant effect on the Council's funding level from 2020/21.

Given the potential implications for the Council's key income streams, modelling software (Analyse Local) has been used in forecasting – including appeal levels – and the identification of new areas of income.

Key issues which affect forecasting Business Rates are covered below:

- Changes in liability resulting from a change in occupancy;
- Appeals against rating decisions;
- Demolitions and the point at which properties are removed from the rating list;
- New Builds and the point at which rateable occupation is triggered;
- Changes in building use and alterations to building size or layout;
- Changes in entitlement to reliefs;
- Action taken by property owners/occupiers to avoid full liability and maximise Relief particularly empty property and charitable relief;
- Changes in the provision for doubtful debts.

Fluctuations in Business Rates income are also strongly linked to the performance of the wider economy. For example, in an economic downturn there is a heightened risk of properties being left empty and lower levels of development activity.

Risks associated with the NNDR process, and action taken to mitigate those risks, are set out in the table below.

Risk	Mitigation	Risk Factor
Appeals estimated to be repayable in 2018/19 relating to all years	Past data has been reviewed and a robust estimate included (using Analyse Local modelling software) and will be monitored closely during the year;	High
Uncertainties around the calculations contained within the form, especially in relation to Section 31 grant levels	A prudent approach has been taken in the inclusion of new burdens (Section 31) grant funding.	Medium
Empty / void properties;	Revenues continue to work with Economic Development staff to maximise occupancy and rates payable;	Medium / High
Recovery levels including an allowance for bad debts;	Close monitoring and additional recovery actions (court, enforcement agents etc.);	Medium
Future mandatory and discretionary relief (including legal challenges).	A review of the policy was undertaken in 2017 – reflecting the economic climate. This will be closely monitored during the year.	Medium

The Government, in setting baseline figures for the Council, has made allowances for the above in their estimates based on past collection levels adjusted for allowances for future changes (e.g. a 4.7% allowance for appeals has been included) – should collection levels locally fall below these assumed levels then there will be a detrimental impact on the Council's income and the associated Medium Term Financial Strategy.

The Non-Domestic (Rates Retention) Regulations 2013 and the Department for Communities and Local Government – National Non-Domestic Rates Return 1 (NNDR1 2018/19) requires Cabinet approval of the tax base by 31 January 2018.

SUSTAINABILITY IMPLICATIONS

- The localism agenda and its implications.
- The ability to support local businesses.
- The ability to attract and retain local businesses.
- Discretionary Rate Relief policy and the budgetary implications for the Council.

BACKGROUND INFORMATION

The Business Rates system is set out below to illustrate the stages of calculating the revised level of income the Council can expect in a two tier County.

1. The Council bills businesses for the Business Rates income due within the local area.
2. 50% of the whole amount due is paid over to Central Government to be incorporated into the Revenue Support Grant (RSG) funding regime.
3. The remaining 50% retained by the Council is then split 80%/18%/2% with the 80% share being retained by the Council, 18% going to the County Council and 2% being the Fire Authority's share.
4. From here on in, a mechanism of adjustments are applied to:
 - (a) protect the Councils who are disproportionately financially worse off, and
 - (b) reduce the income of Councils who are significantly better off as a result of this fundamental change in methodology.
5. The cash value of the Council's share is compared to an amount that Central Government has pre-determined is required by the Council.
6. If the Council's retained amount exceeds this predetermined level the excess has to be paid over to Central Government in the form of a Tariff.
7. Conversely if the amount is less, the Council will receive a Top Up payment.
8. The predetermined level of income contains an assumed level of growth. If the Council grows its tax base in excess of this assumed level and receives a greater amount of income, a levy will be placed on the additional income gained. This, in effect, places a cash limit on the amount the Council is able to benefit as a result of tax base growth.
9. If the Council, however, suffers a loss of income due to large scale business decline and income falls below a threshold of 92.5% of the assessed baseline funding, this level of loss would trigger a safety net payment. Any losses above this limit would be subject to payment in accordance with the pooling governance arrangements.
10. The Council is a member of the Greater Birmingham and Solihull LEP pool and as such will avoid a levy payment to DCLG (as the pool is a net Top Up) and also no safety net payment will be payable.
11. Central Government utilises the current Business Rates data submission forms returned by Councils to administer the system. Namely, NNDR1 (forward looking and forecasting income to be collected and movements in tax base) and NNDR3 (year-end backward looking return of actual income due and collected, audited by the external auditor.)

The above stages have been simplistically listed in comparison to the detailed technical mechanics of the new process. This hopefully provides some perspective to the complexities and variables of the regime and thereby gives a flavour of the degree of risk the Council's MTFS is exposed to.

The role, and therefore profile, of NNDR1 has now become increasingly more important as the Council needs to submit a forecasted level of growth or decline in Business Rate income.

This will invariably impact directly on the amount of income retained to fund the Council's total budget. Robust arrangements have been put in place to monitor Business Rate income going forward.

NNDR1 RETURN

A NNDR 1 return has previously been made on an annual basis, approved by the Section 151 officer, under the current regulations, Cabinet is required to formally approve the expected Business Rates income for the forthcoming year. The deadline for approval is 31st January 2018.

The Business Rates income is the net rate income yield for 2018/19. This is calculated as follows:-

Gross Rates Yield:

Total Rateable Value x NNDR rate multiplier

Less:

Mandatory Reliefs

Discretionary Reliefs

Estimated losses on Collection

Allowance for cost of collection(as set by formula)

Add:

Enterprise Zones

New Development Deals

Renewable Energy Schemes

Plus or Minus Rate Retention Adjustments for change in rateable value due to growth or reduction in property numbers

Adjustments due to appeals

Net Business Rate yield and base of the calculation of central and local shares

This information is all collated on the NNDR 1 form (**APPENDIX A**).

The net yield from Business Rates for 2018/19 per NNDR 1 return is **£32,736,492**.

After the submission of the NNDR 1, the calculation for the allocation of net Business Rate yield is completed. The allocation is in the proportion of:

50% to Central Government

40% to the Local Billing Authority

10% to the other Precepting bodies (9% to Staffordshire County Council and 1% to Staffordshire Fire & Rescue Authority).

NNDR1 Reconciliation to Draft MTFS Forecasts

Income from Business Rates Retention	NNDR1 January 2018 2018/19	Draft MTFS / Budgeted 2018/19	Variance
Collectable	£33,530,162	£34,818,608	£1,288,446
Transitional adj. to be paid to Central Govt.	(£703,652)	(£735,557)	(£31,905)
Cost of Collection	(£90,018)	(£91,080)	(£1,062)
Estimated yield	£32,736,492	£33,991,971	£1,255,479
Authority Retained share	£13,094,597	£13,596,788	£502,191
Less: Tariff	(£9,935,598)	(£9,854,302)	£81,296
Total	£3,158,999	£3,742,486	£583,487
Less: Authority Baseline	(£2,249,465)	(£2,249,465)	-
Total Growth	£909,534	£1,493,021	£583,487
Section 31 Grants			
SBRR	£614,079	£407,813	(£206,266)
Other S31 Grants	£118,042	£97,402	(£20,640)
50% Levy payable	(£820,828)	(£870,577)	(£49,749)
Add: Baseline	£2,249,465	£2,249,465	-
Total	£3,070,293	£3,377,124	£306,831
Draft MTFS assumption	£3,377,124	£3,377,124	-
(Addition) / reduction in funding level	£306,831	-	(£306,831)
Total for the year	£32,270,671	£34,083,051	£1,812,380

Total Retained for the year	£3,070,293	£3,377,124	£306,831
Draft MTFS assumption	£3,377,124	£3,377,124	-
(Addition) / reduction in funding level	£306,831	-	£306,831
Estimated Surplus / (Deficit) b/fwd	(£222,336)	-	£222,336
Total (Addition)/ Reduction in funding level			£529,167

Central Share (DCLG)	£16,368,246	£16,995,986	£627,740
Borough Council	£13,094,597	£13,596,788	£502,191
County Council	£2,946,284	£3,059,277	£112,993
Fire & Rescue Authority	£327,365	£339,920	£12,555

Estimated surplus b/fwd	(£555,839)	-	£555,839
-------------------------	-------------------	---	----------

Central Share (DCLG)	£16,090,327	£16,995,986	£905,660
Borough Council	£12,962,279	£13,687,868	£725,589
County Council	£2,896,258	£3,059,277	£163,018
Fire & Rescue Authority	£321,807	£339,920	£18,113

REPORT AUTHOR

Michael Buckland, Head of Revenues, Tel 709523
e-mail michael-buckland@tamworth.gov.uk

LIST OF BACKGROUND PAPERS

Local Government Finance Act 1988

Local Government Finance Act 2003

Local Government Finance Act 2012

The Non-Domestic(Rates Retention) Regulations 2013

Department for Communities and Local Government – National Non-Domestic Rates Return
1 (NNDR1 2015/16)

APPENDICES

Appendix A (NNDR1) gives details of the estimated Business Rates Income forecast for 2018/19.

This page is intentionally left blank