CABINET

21 January 2021

REPORT OF THE PORTFOLIO HOLDER FOR ASSETS AND FINANCE

BUSINESS RATES INCOME FORECAST 2021/22

EXEMPT INFORMATION

None.

PURPOSE

To report to and seek endorsement from Members on the Business Rates income forecast for 2021/22.

RECOMMENDATIONS

1. Members approve the Business Rates income forecast for 2021/22 and subsequent NNDR1 form for submission to MHCLG by 31 January 2021, in line with the scheme of delegation.

2. Should material amendments be required to the forecast NNDR1, Cabinet authorise the Executive Director Finance, 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 Ministry of Housing, Communities and Local Government (MHCLG) 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 MHCLG.

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

- 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;

- Its introduction in 2013 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

- The payment of new burdens (Section 31) Grants in line with projected estimates.

- The ongoing effects of the global pandemic on local businesses and ultimately the Councils finances.

For 2021/22, the NNDR1 has been completed and continues to be mindful of the latest national revaluation and the changes implemented to the appeals process at that time known as check, challenge, appeal. It also follows that the risk of appeals increases substantially due to the current economic climate and the effects of covid 19.

The estimates included in the NNDR1 form for 2021/22 (as attached at **Appendix A** for Members' information) have been prepared on the basis of instructions & guidance from MHCLG 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:

- Forecast levels of growth/decline in business rates and voids;

- 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 and Retail Relief arising from the Government response to the pandemic) to inform the projected business rates levels for 2021/22 and future years.

The Government has confirmed that the longer-term reforms for the local government finance system (including the move to 75% Business Rates Retention and Fairer Funding Review of Relative Needs and Resources) will be deferred again as a result of the pandemic, although no timescales have been released. In addition, the next planned national Business Rates Revaluation, planned for 2021 will take effect from 2023.

The Government said it will keep an open dialogue with the local authorities about the best approach to the next financial year, including how to treat accumulated business rates growth (pending the planned business rates baseline reset) and the approach to the 2021/22 local government finance settlement – the Government have confirmed that the reset will be deferred which means District Councils keep the accumulated growth in business rates (as they did last year) – subject to the effect of the pandemic on future business rate income.

No papers were published but the Secretary of State confirmed a commitment to the Fair Funding Review and the business rates reset; but in answering questions from MPs he indicated only that there “may be an opportunity next year” to bring forward proposals for reform and he confirmed that he did not know when reform would be implemented.

There remains a high risk that these reforms, including the planned Business Rates Reset (when a proportion of the growth in business rates achieved since 2013/14 will be redistributed), will have a significant effect on the Council’s funding level from 2022/23.

The Government is also undertaking a fundamental review of the Business Rates system and is currently considering responses to the call for evidence. A final report setting out the full conclusions of the review will be published in spring 2021. To support businesses in the near-term, the government has decided to freeze the business rates multiplier in 2021/22, saving businesses in England an estimated £575 million over the next five years. Local authorities will be fully compensated for this decision. It is also considering options for further Covid-19 related support through business rates reliefs. In order to ensure that any decisions best meet the evolving challenges presented by Covid-19, the government will outline plans for 2021/22 reliefs in the coming months.

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 Finance 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 2020 to date is **£20,683.32.**

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 2021/22.

Four key issues in completing the forecast are:

1. the level of appeals estimated to be repayable in 2021/22;
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 January 2021 2021/22	Draft MTFS / Budgeted 2021/22	Variance
Collectable	£33,091,010	£33,066,614	(£24,396)
Transitional Protection Payments	(£87,883)	(£386,617)	(£298,734)
Cost of Collection	(£87,590)	(£90,135)	(£2,545)
Estimated yield	£32,915,537	£32,589,862	(£325,675)
Authority Retained share	£13,166,215	£13,035,945	(£130,270)
Less: Tariff	(£10,405,841)	(£10,405,841)	-
Total	£2,760,374	£2,630,104	(£130,270)
Less: Authority Baseline	(£2,338,506)	(£2,338,506)	-
Total Growth	£421,868	£291,598	(£130,270)
Section 31 Grants			
SBRR	£806,897	£841,260	£34,363
Other S31 Grants	£145,697	£759,897	£614,200
50% Levy payable	(£687,231)	(£937,210)	(£249,979)
Add: Baseline	£2,338,506	£2,338,506	-
Total	£3,025,737	£3,294,051	£268,314

The estimated net yield of £13,166,215 retained by the Council (after the Preceptors and Central Share) is held within the Collection Fund. This is reduced by the tariff payable of £10,405,841 in 2021/22 and the 50% levy on business rates in excess of the Government assessed baseline.

Increased funding of £130,270 is reported, subject to reduced levy payment of £249,979 and reduced S.31 Grant income of £648,563 – equating to a net reduction of £268,314 when compared to the Draft MTFS forecast.

This is mainly due to increased uncertainty and therefore an increased provision in 2020/21 for appeals and mandatory relief, following updated information from Analyse Local – in light of the potential impact of the pandemic on future business rate appeal levels.

A deficit of £19.1m is reported for 2020/21 – however, this will be reduced by additional section 31 grant for the extended retail relief in 2020/21 of £17.7m due to the pandemic. However, this will need to be transferred to reserve and released during 2021/22 in line with Collection Fund accounting practice.

This means that it is forecast that there will be a net deficit for 2020/21 after receipt of section 31 grant of £2m.

Reconciliation	**Collection Fund 2020/21**
Deficit over 3 years	(£19,147,174)
S31 Grant for additional reliefs	£17,692,833
less S31 grant already received for retail relief	(£477,475)
Surplus B/Fwd	(£831,024)
Surplus distributed 2020/21	£806,546
Net surplus / (Deficit) 2020/21 to be spread	(£1,956,294)

In addition, due to the pandemic, the Council is required by regulation to spread the deficit over 3 years (net of the additional section 31 grant income) – as follows:

Local Government Share of deficit after S31 grants	**Estimate 2020/21**	**Budget 2021-22**	**Budget 2022-23**	**Budget 2023-24**
Transfer Estimated Balance				
SCC share of Estimated Surplus	(£169,266)	£1,599,749	£58,689	£58,689
Staffordshire Fire share of Estimated Surplus	(£8,065)	£178,430	£6,521	£6,521
TBC Share of Estimated Surplus	(£322,619)	£7,137,191	£260,839	£260,839
Sub Total	**(£499,950)**	**£8,915,370**	**£326,049**	**£326,049**
Section 31 Grants for additional Business Rate Reliefs				
SCC share	-	(£1,541,060)	-	-
Staffordshire Fire	-	(£171,909)	-	-
TBC Share	-	(£6,876,352)	-	-
Sub Total	**-**	**(£8,589,321)**	**-**	**-**
Estimated Balance after Section 31 grants				
SCC share	(£169,266)	£58,689	£58,689	£58,689
Staffordshire Fire	(£8,065)	£6,521	£6,521	£6,521
TBC Share	(£322,619)	£260,839	£260,839	£260,839
Sub Total	**(£499,950)**	**£326,049**	**£326,049**	**£326,049**

This deficit will also be included within the updated MTFS report in February 2021.

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 MHCLG 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.

The Government has confirmed that the longer-term reforms for the local government finance system (including the move to 75% Business Rates Retention and Fairer Funding Review of Relative Needs and Resources) will be deferred again as a result of the pandemic, although no timescales have been released. In addition, the next planned national Business Rates Revaluation, planned for 2021 will take effect from 2023.

The Government said it will keep an open dialogue with the local authorities about the best approach to the next financial year, including how to treat accumulated business rates growth (pending the planned business rates baseline reset) and the approach to the 2021/22 local government finance settlement – the Government have confirmed that the reset will be deferred which means District Councils keep the accumulated growth in business rates (as they did last year) – subject to the effect of the pandemic on future business rate income.

No papers were published but the Secretary of State confirmed a commitment to the Fair Funding Review and the business rates reset; but in answering questions from MPs he indicated only that there “may be an opportunity next year” to bring forward proposals for reform and he confirmed that he did not know when reform would be implemented.

There remains a high risk that these reforms, including the planned Business Rates Reset (when a proportion of the growth in business rates achieved since 2013/14 will be redistributed), will have a significant effect on the Council’s funding level from 2022/23.

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;
- Delayed developments due to the pandemic;
- Changes in entitlement to reliefs and reliefs available;
- Action taken by property owners/occupiers to avoid full liability and maximise Relief particularly empty property, charitable relief and properties remaining empty on insolvency;
- 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 2021/22 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	Medium / High

	maximise occupancy and rates payable.	
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 will be undertaken in 2021 – reflecting the economic climate and new legislation. This will be closely monitored during the year.	Medium

The Non-Domestic (Rates Retention) Regulations 2013 and the Department for Communities and Local Government – National Non-Domestic Rates Return 1 (NNDR1 2021/22) requires Cabinet approval of the tax base by 31 January 2021.

EQUALITIES IMPLICATIONS

None

SUSTAINABILITY IMPLICATIONS

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

REPORT AUTHOR

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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 2021/22.

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