CABINET

20 January 2022

REPORT OF THE PORTFOLIO HOLDER FOR FINANCE AND CUSTOMER SERVICES

BUSINESS RATES INCOME FORECAST 2022/23

Exempt Information

None

Purpose

To report to and seek endorsement from Members on the Business Rates income forecast for 2022/23.

Recommendations

1. Members approve the Business Rates income forecast for 2022/23 and subsequent NNDR1 form for submission to MHCLG by 31 January 2022, 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 Department for Levelling Up, Housing and Communities (DLUHC) 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 DLUHC.

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 2022/23, 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 2022/23 (as attached at **Appendix A** for Members' information) have been prepared on the basis of instructions & guidance from DLUHC informed by local conditions. However, there continues 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 2022/23 and future years.

As part of the recent Spending Review, no announcement was made about the government's plans for funding reform or a reset of the Business Rates Retention (BRR) system, both of which were originally expected to be implemented in 2019/20, but which have been delayed a number of times.

The 2022/23 local government finance settlement has now been published, for one year only and is based on the Spending Review 2021 (SR21) funding levels. This is the first time since 2015 that, in the context of a multi-year Spending Review, the government has only provided local authorities with a single-year settlement.

No detailed announcements are made on funding reform, though the following statement is made:

Government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess this has not been updated in a number of years, dating from 2013-14 to a large degree, and even as far back as 2000. Over the coming months, we will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes.

As part of this we will look at options to support local authorities through transitional protection. Councils should note the one-off 2022/23 Services Grant provided in the Local Government Finance Settlement in 2022/23 will be excluded from potential transitional protections.

While this means the Council will be able to retain its business rate growth for 2022/23, it also means that the uncertainty continues and potentially the Council still faces losing this growth from 2023/24 as, over the coming months, the Government have stated that they will work with the sector before consulting on funding reform.

The Government originally declared an intention to allow councils to retain 100% of Business Rates in 2015, but this was watered down in 2017 when it announced plans for a 75% retention regime. This was then postponed in 2019 and again in 2020. It now appears that Government are reluctant to move in this direction as they feel it works against the process of redistributing money to those who need it most, particularly in the wake of Covid. They are now exploring what headroom they have for a redistribution of funding to better reflect the additional needs and responsibilities that local government has in those areas where they do not for whatever reason have the same resilient Council Tax base, or the same level of Business Rates upon which to draw.

In addition the Government has concluded its fundamental review of Business Rates in England. It reaffirms the importance of Business Rates and its central role in the tax system. The tax is therefore retained but will be reformed to make it “fairer and timelier”. The reforms include more frequent revaluations as well as new discounts and reliefs. The Government is still weighing up the pros and cons of introducing an online sales tax (OST) and has confirmed that a separate consultation on this will be published soon.

Headline changes set out include:

- Revaluations will now take place every three years, rather than every five years. This will start from the April 2023 revaluation. Whilst there was widespread support for having a shorter Antecedent Valuation Date (or ‘AVD’ – which is the period between the revaluation date and the date at which market rental values are assessed), this will remain as two years for the time being, such that the AVD for the 2023 revaluation is April 2021. Both the length of the AVD and the periodicity of revaluations may be shortened further in future, signalling a trend towards Business Rates responding more quickly to fluctuating market and economic trends;

- The planned increase in the multiplier next year is cancelled. Instead, the multiplier will be frozen at the 2021/22 level;

- A 50 percent discount for small retail, hospitality and leisure businesses will be implemented - up to a maximum of £110,000 for 2022/23. This discount takes effect immediately which will be particularly welcome news for smaller businesses still feeling the impact of the pandemic as well as increasing competition from online retailers.

- Changes to the way relief is applied for investments in renewable energy and storage, with new investment relief for green technologies like solar panels applying from 2023 to 2035, regardless of whether the installations are for a business’s own use or for onward sale;

- In order to avoid disincentivising investments in property, the Government is introducing a 100 percent improvement relief for property improvements for one year e.g. an office adding new air conditioning. This will start in 2023 and continue until a review in 2028;

- The Government has pledged £0.5 billion additional funding for the Valuation Office Agency (VOA) – to cover the additional resourcing needs arising from the increased frequency of valuations, a move towards digitalisation of Business Rates and increased transparency and guidance around the approach to valuations by the VOA; and

- Backward looking appeals of past revaluations will transition to being limited to the ‘life of the list’ from 2026 i.e. from 2026 the end of each list will be set as the statutory deadline for the VOA to resolve challenges.

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 2021 to date is **£20,554.70.**

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 2022/23.

Four key issues in completing the forecast are:

1. the level of appeals estimated to be repayable in 2022/23;
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 2022 2022/23	Draft MTFS / Budgeted 2022/23	Variance
Collectable	£33,216,497	£37,211,453	£3,994,956
Cost of Collection	(£85,715)	(£85,715)	-
Estimated yield	£33,130,782	£37,125,738	£3,994,956
Authority Retained share	£13,252,313	£14,918,867	£1,666,554
Less: Tariff	(£10,405,841)	(£10,405,841)	-
Total	£2,846,472	£4,513,026	£1,666,554
Less: Authority Baseline	(£2,338,506)	(£2,338,506)	-
Total Growth	£507,966	£2,174,520	£1,666,554
Section 31 Grants			
SBRR	£868,602	-	(£868,602)
Other S31 Grants	£1,148,720	-	(£1,148,720)
50% Levy payable	(£1,262,644)	(£1,087,260)	£175,384
Add: Baseline	£2,338,506	£2,338,506	-
Total	£3,601,150	£3,425,766	(£175,384)
Draft MTFS assumption	£3,425,766	£3,425,766	-
(Addition) / reduction in funding level	(£175,384)		

The estimated net yield of £13,252,313 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 2022/23 and the 50% levy on business rates in excess of the Government assessed baseline.

A net increase in funding of £175,384 is reported when compared to the Draft MTFS forecast.

Increased S.31 Grant income of £2,017,322 is reported (due to the inclusion of the announced reliefs which serve to reduce business rates collectable by £1,666,554 offset by the increased S.31 grant income), subject to an increased levy payment of £175,384.

A deficit of £3,652,635 is reported for 2021/22 (before the reduction relating to the continuation of the 3 year spreading of the 2020/21 deficit of £652,098 to be paid in 2023/24). This will be reduced by additional section 31 grant (received in the General Fund) for the extended retail relief in 2021/22 due to the pandemic, but will need to be transferred to reserve and released during 2021/22 in line with Collection Fund accounting practice.

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 Section 31 grants	**Budget 2021/22**	**Budget 2022/23**	**Budget 2023/24**
Transfer Estimated Balance			
SCC share of Estimated Surplus	£1,599,749	£270,048	£58,689
Staffordshire Fire share of Estimated Surplus	£178,430	£30,005	£6,521
TBC Share of Estimated Surplus	£7,137,191	£1,200,215	£260,839
Sub Total	**£8,915,370**	**£1,500,268**	**£326,049**
Section 31 Grants for additional Business Rate Reliefs			
SCC share	(£1,541,060)	(£211,359)	
Staffordshire Fire	(£171,909)	(£23,484)	
TBC Share	(£6,876,352)	(£939,376)	
Sub Total	**(£8,589,321)**	**(£1,174,219)**	**-**
Estimated Balance after Section 31 grants			
SCC share	£58,689	£58,689	£58,689
Staffordshire Fire	£6,521	£6,521	£6,521
TBC Share	£260,839	£260,839	£260,839
Sub Total	**£326,049**	**£326,049**	**£326,049**

This deficit will also be included within the updated MTFS report in February 2022.

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 DLUHC 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.

As part of the recent Spending Review, no announcement was made about the government's plans for funding reform or a reset of the Business Rates Retention (BRR) system, both of which were originally expected to be implemented in 2019/20, but which have been delayed a number of times.

The 2022/23 local government finance settlement has now been published, for one year only and is based on the Spending Review 2021 (SR21) funding levels. This is the first time since 2015 that, in the context of a multi-year Spending Review, the government has only provided local authorities with a single-year settlement.

No detailed announcements were made on funding reform. 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 2022/23 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 will be undertaken in 2022 – 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 2022/23) requires Cabinet approval of the tax base by 31 January 2022.

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

Background Information

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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 2022/23.

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