

19 January 2023

Report of the Portfolio Holder for Finance, Risk and Customer Services**Business Rates Income Forecast 2023/24****Exempt Information**

None

Purpose

To report to and seek endorsement from Members on the Business Rates income forecast for 2023/24.

Recommendations

1. Members approve the Business Rates income forecast for 2023/24 and subsequent NNDR1 form for submission to MHCLG by 31 January 2023, 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 Business Rates forecasts continue to be an area of financial risk which is heightened by the unknown impacts of global financial events and the legacy of the pandemic on businesses and therefore these estimates could change significantly.

For 2023/24, the NNDR1 has been completed and continues to be mindful of the latest national business rates revaluation (from April 2023) and the changes implemented to the appeals process at that time known as check, challenge, appeal (CCA). It also follows that the risk of appeals increases substantially due to the current economic climate and the effects of the covid 19 pandemic.

From 1 April 2023 a revaluation will update rateable values for non-domestic properties in England and the multiplier in line with evidence from April 2021. There will be a number of initiatives to support ratepayers:

- The business rates multipliers for 2023/2024 will be frozen.
- A new transitional relief scheme limiting the rate at which bills can increase due to the revaluation funded by the Exchequer.
- A more generous Retail, Hospitality and Leisure relief for eligible properties in 2023/2024.
- A Supporting Small Business Scheme to cap bill increases.

DLUHC have confirmed that local authorities will be fully compensated for any loss of income as a result of these Business Rates measures and will receive new burdens funding for administrative and IT costs.

The estimates included in the NNDR1 form for 2023/24 (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 (especially following a national revaluation when CCA levels can increase); and
- The ongoing treatment of Section 31 grant funding.

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 2022 to date is **£17,003.52**.

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 2023/24.

Four key issues in completing the forecast are:

1. the level of appeals estimated to be repayable in 2023/24;
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 2023 2023/24	Draft MTFS / Budgeted 2023/24	Variance
Collectable	£32,245,521	£36,904,886	£4,659,365
Transitional Protection Payments	£1,798,353	-	(£1,798,353)
Renewable Energy Schemes	(£2,582)	-	£2,582
Cost of Collection	(£88,114)	(£88,114)	-
Estimated yield	£33,953,178	£36,816,772	£2,863,594
Authority Retained share	£13,581,271	£14,797,200	£1,215,929
Less: Tariff	(£10,686,850)	(£10,686,850)	-
Total	£2,894,421	£4,110,350	£1,215,929
Less: Authority Baseline	(£2,426,018)	(£2,426,018)	-
Total Growth	£468,403	£1,684,332	£1,215,929
Section 31 Grants			
SBRR	£775,925	-	(£775,925)
Other S31 Grants	£1,707,998	-	(£1,707,998)
50% Levy payable	(£1,476,163)	(£842,166)	£633,997
Add: Baseline	£2,426,018	£2,426,018	-
Total	£3,902,181	£3,268,184	(£633,997)
Draft MTFS assumption (Addition) / reduction in funding level	£3,268,184	£3,268,184	-
	(£633,997)	-	
Estimated Surplus / (Deficit) b/fwd	(£260,300)	(£260,839)	(£539)
Total (Addition)/ Reduction in funding level			(£634,536)

The estimated net yield of £13,581,271 retained by the Council (after the Preceptors and Central Share) is held within the Collection Fund. This is reduced by the tariff payable of £10,686,850 in 2023/24 and the 50% levy on business rates in excess of the Government assessed baseline.

A net increase in funding of £634,536 is reported when compared to the Draft MTFS forecast.

Increased S.31 Grant income of £2,483,923 is reported (due to additional, more generous & continuing business rates reliefs), offset by the associated reduced collectable business rates income of £1,215,929 and an increased levy payment of £633,997. In addition, a deficit of £260,300 is forecast for 2022/23 - £539 lower than the MTFS forecast.

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.

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 2023/24 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 2023 – 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 2023/24) requires Cabinet approval of the tax base by 31 January 2023.

Equalities Implications

None

Environment and Sustainability Implications (including climate change)

- 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 2023/24.

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