Brighton & Hove City Council

POLICY & RESOURCES COMMITTEE ADDENDUM

4.00PM, THURSDAY, 16 JANUARY 2014

COUNCIL CHAMBER, HOVE TOWN HALL

ADDENDUM

POLICY & RESOURCES COMMITTEE	Agenda Item 102 Brighton & Hove City Council

Subject:		**Business Rates Retention forecast 2014/15**	
Date of Meeting:		**16th January 2014**	
Report of:		**Executive Director of Finance & Resources**	
Contact Officer:	**Name:**	**Mark Ireland**	**Tel: 29-1240**
	Email:	**Mark.ireland@brighton-hove.gov.uk**	
Ward(s) affected:		**All**	

FOR GENERAL RELEASE

Note: The special circumstances for non-compliance with Access to Information Procedure Rule 5 and Section 100B(4) of the Local Government Act 1972 are that the Department of Communities & Local Government (CLG) did not send out a draft of the statutory business rates return and guidance notes until Friday 3 January and the return is significantly different from last year as it incorporates complex changes to business rates announced in the Autumn Statement.

1. PURPOSE OF REPORT AND POLICY CONTEXT

1.1 There is a statutory requirement placed on all business rates collection authorities to calculate how much business rates income each authority is likely to receive for the coming year. Members will be aware that there is considerable volatility in business rates income which makes it difficult to forecast and that the council is highly reliant on data provided by and decisions made by the Valuation Office Agency (VOA) which are often significantly delayed.

1.2 CLG will not issue a final NNDR1 2014/15 form (this represents the estimated business rates expected to be collected by the council next year) until 17 January 2014 which is after the date of this Committee. This report sets out the basis upon which the form will be completed but due to timing issues asks Members to delegate authority to the Executive Director of Finance & Resources in consultation with the Chair to agree the final form. This form must be sent to CLG and the fire authority by 31 January 2014.

2. RECOMMENDATIONS:

That Policy & Resources Committee:

2.1 Agree to delegate the agreement of the final business rates forecast and the NNDR1 2014/15 form to the Executive Director of Finance & Resources in consultation with the Chair of this Committee for the reasons given in paragraph 1.2.

2.2 Note based on the latest data the amount forecast to be received by the council in 2014/15 from its share of local business rates and Section 31 compensation grants is £54.765m which is the same as the forecast used in the December budget update report.

2.3 Agree that any under spend on the current discretionary business rates scheme identified in paragraph 3.20 is used to fund the one-off review of the compiled rating list as set out in paragraphs 3.21 and 3.22;

2.4 Agree that a review is also undertaken of the current discretionary scheme now that there is a significant overlap between our scheme and proposals announced in the Autumn Statement and revised proposals are brought back to a future meeting of this Committee.

2.5 Note that the business rates computer software system will need to be replaced during 2014/15 as Civica will cease supporting the current system for the reasons given in paragraph 3.25 and provision will need to be made in the 2014/15 budget to fund a new system and the one-off costs of implementation.

3. CONTEXT/ BACKGROUND INFORMATION

3.1 Business rates are a property tax based on the rateable value of each non-domestic property. Rateable values are determined by the Valuation Office Agency (VOA) and are mostly based on rental values. The current rateable value for Brighton & Hove is about £265.5m and a graph in appendix 1 shows how the rateable value has changed over the last 2 years. Members can see that the pattern is completely different in this financial year from last demonstrating how difficult it is to make forecasts. The rating valuations are updated every 5 years although the next revaluation due in 2015 has been deferred by the government until 2017. Owners and tenants can appeal their rateable value at any time during a valuation period (i.e. they will be able to appeal their 2010 valuation at any time until 2017).

3.2 The appeals process is also administered by the VOA and appeals can often take several years to resolve. The Government has said that it shares the concerns of local authorities about delays in dealing with appeals and the financial uncertainty this brings under the rates retention system. The Government has committed to clear 95% of all currently outstanding appeals by July 2015. Currently about 20% or £50m of the total rateable value of the city is under appeal.

3.3 A consultation paper has been published by the Government that it hopes will allow well founded challenges to be resolved faster bringing greater financial certainty for local government. The deadline for responses is 3 March 2014 and the paper will be discussed with the all party Members Budget Review Group. The proposals in the consultation paper attempt to achieve the following:

- Improve transparency in the valuation process to give improved confidence in rateable values.
- Bring business rates into line with other systems by requiring ratepayers to provide with their challenge an explanation of why they think the rateable value is wrong.
- Separate the “proposal” stage in the VOA from the “appeal” stage in the Valuation Tribunal.

3.4 To calculate the bill for each property on the rating list, a multiplier is applied to the rateable value. The multipliers are set nationally and are normally index linked to the Retail Price Index (RPI). In the Autumn Statement the Chancellor announced that the increase will be capped at 2% rather than the September RPI of 3.2%. The provisional standard multiplier for 2014/15 is 48.2p in the pound but a lower rate of 47.1p applies to small businesses with a rateable value of less than £18,000. The Autumn Statement also extended further relief for small businesses (SBRR) into 2014/15 of up to 100% for those with a rateable value of £12,000 or less.

3.5 Further changes in the Autumn Statement which provide a significant boost for businesses generally and smaller businesses in particular are:

- Ratepayers receiving SBRR that take on an additional property which would currently disqualify them from receiving relief will continue to receive their existing relief for 12 months.
- A discount of £1,000 will be given to shops, pubs and restaurants with a rateable value below £50,000 for two years up to the state aid limits, from 1 April 2014.
- A 50% business rates relief for 18 months – at any time between 1 April 2014 and 31 March 2016 – for businesses that move into retail premises that have been empty for a year or more. [Note this has implications for our own discretionary local scheme which covers the same ground].
- Ratepayers will be allowed to elect to pay bills over 12 instalments instead of 10.

3.6 The Government has said that local authorities will be refunded for the loss in receipts as a result of these measures and will receive the refund in the form Section 31 compensation grants. It is worth noting that councils have yet to receive compensation for the changes to SBRR announced in the 2012 Autumn Statement and that this council is still owed approximately £1.3m. The council will need to identify the amounts for 2014/15 in respect of these measures. The proposal to offer a discount of £1,000 (second bullet point above) requires a computer system update costing an estimated £12,000 to £16,000 and may require significant manual intervention to generate accurate bills. Officers are assessing the costs and will lobbying CLG for appropriate new burdens funding.

3.7 Certain categories of occupation are entitled to relief against their annual rates bill for example charities receive mandatory relief of 80%. Local authorities may also provide relief on a discretionary basis for particular types of occupier.

3.8 The business rates retention scheme allows the council to keep 49% of the net amount raised locally with a further 1% going to East Sussex Fire Authority and the remaining 50% is paid to the government.

Business Rates Monitoring in 2013/14

3.9 Since February 2012 officers have been monitoring the changes in rateable value notified by the VOA and all the different elements that make up business rates income. The chart in appendix 1 shows that although rateable value declined fairly consistently in 2012/13 due to successful rating appeals the position in 2013/14 has been very different. The most significant increases such as the new Amex offices were anticipated in the forecast for 2013/14 but improved local economic conditions and reductions in successful appeals have meant that the rateable value is currently higher than projected by about £3.5m.

3.10 The combined effect of higher rateable value and lower successful appeals means that the revised mid-year forecast for 2013/14 for the council's share of business rates was approximately £2m more than anticipated. However, this does not generate additional resources for the council in the current financial year as there will be a compensating reduction in safety net grant from the Government but there are longer term benefits.

3.11 Each of the schedules received from the VOA has been analysed to determine the change in rateable value due to successful appeals and a bar chart in appendix 1 shows the value of each type of change. Overall the analysis shows that both the number and size of successful appeals is lower in this year than last.

3.12 Successful rating appeals not only reduce the ongoing rateable value of properties but also result in refunds in most cases going back to 1st April 2010 (the date of the last revaluation) and in some cases 1st April 2005. So in 2014/15 in most cases a successful appeal will result in business rates refunds for 2010/11, 2011/12, 2012/13 and 2013/14 as well.

3.13 One of the most significant factors in determining forecasts of future business rates income are therefore the level of appeals and refunds. Other factors to take into account are additions and deletions to the rating list and any significant changes to mandatory and discretionary reliefs.

Appeals and Refunds

3.14 The VOA sent data to the council on outstanding appeals at the end of September 2013 and another data set is expected shortly. The table below summarises that data plus the data from the previous year. It shows that the rateable value under appeal has declined by approximately 45% since the previous year.

Information received from the VOA on 26 November 2012			
	Number of outstanding appeals	Rateable value of properties under appeal	% of total rateable value
2005 List	129	£15.4m	5.8%
2010 List	802	£87.8m	33.3%
Total	931	£103.2m	
Information received from the VOA at end of September 2013			
	Number of outstanding appeals	Rateable value of properties under appeal	% of total rateable value
2005 List	20	£2.2m	0.8%
2010 List	550	£54.4m	20.9%
Total	570	£56.6m	

3.15 Businesses can lodge appeals for material changes of circumstance. These can arise for example due to:
- Alterations to the property or its use.
- A new development in the area.
- Redevelopment in the area of the property.
- Changes to roads and footpaths in the area.
- Changes to the way other property is occupied in the area.

3.16 The charts in appendix 1 show a breakdown of the total by type of appeal and the value of new appeals each quarter. Whilst the value of new appeals is highly volatile the overall trend is significantly down. The forecast for 2014/15 will reflect the fact that there are both fewer outstanding appeals and that the reduction in rateable value following a successful appeal has also fallen. Overall the provision for the reduction in rateable value due to appeals will be reduced by 17%.

Additions and deletions to the rating list

3.17 Finance officers have been in contact with officers from Planning, Economic Development, Major Projects and Revenues to assess what is currently happening regarding development within the city and what might happen in the future. In-year monitoring shows that the underlying rateable value of the city has increased over the last year compared to a static position last year. It is anticipated that an improving local economy will lead to further increases in 2014/15 and beyond.

3.18 There are some specific and significant developments which have either been completed but are still not on the rating list or are expected to be completed during the year. These include the completed developments of Montefiore Hospital, The Keep and the TH Baker store in Churchill Square and new developments in the New England Quarter and London Road including the Open Market. Overall the rating list is forecast to achieve a net underlying growth of 0.5%.

Changes to mandatory and discretionary reliefs

3.19 Academies and free schools qualify for 80% charity relief whereas local authority maintained schools do not. The business rates payable by all the local authority maintained schools is about £1.9m in 2013/14 which will reduce if any of the schools transfer.

3.20 Members agreed a discount to incentivise the occupation of empty properties by businesses at Policy & Resources Committee on 12 September 2013. The discretionary relief budget was set by Budget Council in February 2013 at £0.1m and it was recognised in the September report that the estimated cost would only be about £0.07m in 2013/14 but potentially more than £0.1m in 2014/15 if the scheme proved successful. One of the proposed changes to business rates (third bullet in paragraph 3.5) announced in the Autumn Statement significantly overlaps with the council's discretionary scheme. Therefore the cost met by the council is likely to drop significantly creating an under spend on the scheme in both 2013/14 and 2014/15. Given this overlap Members are asked to authorise officers to review the existing discount and come back with revised proposals to encourage business expansion within the city to a future committee meeting.

Reviewing the Compiled Rating List

3.21 The council now has a significant financial incentive for the first time in over 20 years to ensure that the current rating list accurately reflects all the relevant businesses within the city and that those businesses are paying the right amount. Officers have looked at a wide range of initiatives to review the rating list some of which are:

- Data matching exercises which could involve looking at internal data sources in planning, licensing and the property gazetteer, external data sources, Thompson and Yellow pages, walking the streets, using Google maps, etc.
- Re-checking charitable status particularly given significant increases in recent years.
- Investigate tax avoidance such as moving from one property to the next as soon as time limited discounts end.
- Additional focus on all zero rated properties.

3.22 The review work will require additional staff resources particularly to coordinate the work in Revenues & Benefits. Other local authorities will be contacted to see if the use of outside organisations such as Experian has generated beneficial results and there may be some costs incurred in purchasing these data matching products. Overall it is estimated that for an investment of about £0.1m it might be possible to generate £0.5m in additional business rates income for the council equivalent to a 1% increase in the rating list. Members are asked to reallocate the under spend identified in paragraph 3.20 to fund this investment.

Business rates forecast for 2014/15

3.23 The statutory NNDR1 return cannot be completed until the council receives a final version of the return from CLG which is expected on 17 January. The financial implications section later in this report set out the latest forecast for the council's share of business rates for next year.

Monitoring and reporting

3.24 Business rates income is hard to predict and volatile and therefore needs to be closely monitored as the year progresses. Officers have established monitoring systems to review what has been happening since February 2012 and these systems will be maintained and expanded where appropriate. Frequent monitoring updates will be prepared for Members as part of the regular budget monitoring reports presented to this Committee.

3.25 Just before Christmas the council were informed by Civica that they would cease support for the current business rates software system as it is only used by 4 authorities across the country. Planning for the acquisition of a new system has begun within the Revenues & Benefits teams. The transfer to a new system will require significant staffing resources to transfer data and conduct testing as well as the potential costs of purchasing a new system. Officers are currently considering these costs and appropriate provision will need to be made in the

2014/15 budget. The current system is functional but basic and a new system should provide further options to improve the service and produce significantly better management information.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

4.1 The completion of the NNDR1 is prescribed in the completion guidance notes from CLG. The council could choose not to spend one-off resources on an in depth review of the business rates register but this would mean that any inequities in the register that have occurred since 1990 will not be addressed in line with good practice and that potential additional income would not be generated.

5. COMMUNITY ENGAGEMENT & CONSULTATION

5.1 The council will need to consult relevant stakeholders upon any options to revise the existing discretionary scheme once these have been worked up and Members would then need to agree any revisions.

6. CONCLUSION

6.1 The council has a statutory duty to agree a business rates forecast, set out a forecast surplus or deficit for 2013/14 and submit an NNDR1 form by the 31 January 2014. These calculations can only be completed once the council has received final returns and guidance from CLG.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

7.1 The significant changes and issues relating to the business rates forecast for 2014/15 have been covered in the body of the report. A table summarising the changes since 2013/14 relating to the council is shown below. These figures include anticipated section 31 government grants to compensate for the cap on the annual rates increase of 2%, small business rate relief and other changes announced in the Autumn Statement. The forecast is £2m higher than the forecast included in the medium term financial strategy made this time last year but consistent with the forecast used in the December budget update report.

Brighton & Hove City Council share of business rates	**£ million**
Business rates forecast for 2013/14	42.234
Changes in base:	
• Removal of one-off provision for refunds following successful appeals as full provision for all anticipated future appeals was included in 2013/14	+7.570
• Add back section 31 grant for small business rate relief	+1.300
Revised base for 2013/14	51.104
Inflation at 3.2%	+1.661
New base for 2014/15	52.765
Adjustments to forecast for 2014/15:	
• Increase to reflect current rateable value is higher than the original projection made last year (1.4% higher RV)	+0.750

Brighton & Hove City Council share of business rates	£ million
• Increase to reflect projected growth in rateable value over the coming year (0.5% higher RV)	+0.250
• Reduction in the forecast for the permanent reduction in rateable value as a result of successful appeals (17% reduction in successful appeals)	+0.500
• Forecast increase in rateable value following the review of the register (1% increase in RV)	+0.500
Business rates income forecast for 2014/15	**54.765**

7.2 For the statutory NNDR1 return the council needs to estimate the value of all the section 31 compensation grants and deduct these from the forecast as the council will receive this money separately from the Government.

Finance Officer Consulted: Mark Ireland Date: 08/01/14

Legal Implications:

7.3 Under Part 2 of the Non-Domestic Rating (Rates Retention) Regulations 2013, the council must determine specified information relating to its business rates forecast and notify the Secretary of State and relevant precepting authorities of the amounts. In respect of the year commencing 1st April 2014, these amounts must be determined by 31st January 2014.

7.4 This is not a function reserved to Full Council by legislation and it is proper for this matter to be decided by this Committee as the calculation of business rates is within its terms of reference.

7.5 As Government have yet to issue the NNDR 1 in its final form, and in view of the timescale for completion and the technical nature of the task, it would be prudent for the Committee to grant the Director delegated authority to complete the form when received, in accordance with recommendation 2.1.

Lawyer Consulted: Oliver Dixon Date: 09/01/14

Equalities Implications:

7.6 None specific to this report.

Sustainability Implications:

7.7 The changes to business rates set out in the Autumn Statement should have a beneficial impact on the economic health of the city. The targeting of small and medium sized businesses is consistent with the aims and principles of the council’s One Planet Living strategy (Equity and Local Economy), helping to ensure a thriving and diverse local economy.

Any Other Significant Implications:

Risk and Opportunity Management Implications:

7.8 Business rates income is volatile and hard to predict so therefore needs close monitoring as set out in paragraph 3.24. The system allows councils to spread the volatility risks with other councils by pooling. Brighton & Hove is not particularly reliant on business rates income from any one employer or any particular type of business so the risks here are lower. However, the council may wish to consider merits of pooling in future years as part of the Greater Brighton City Deal proposals.

Corporate / Citywide Implications:

7.9 The council has a significant incentive to maintain and grow the business rates income generated by the city and needs to take this into consideration when making all relevant decisions.

SUPPORTING DOCUMENTATION

Appendices:

1. Business rates monitoring 2012/13 and 2013/14

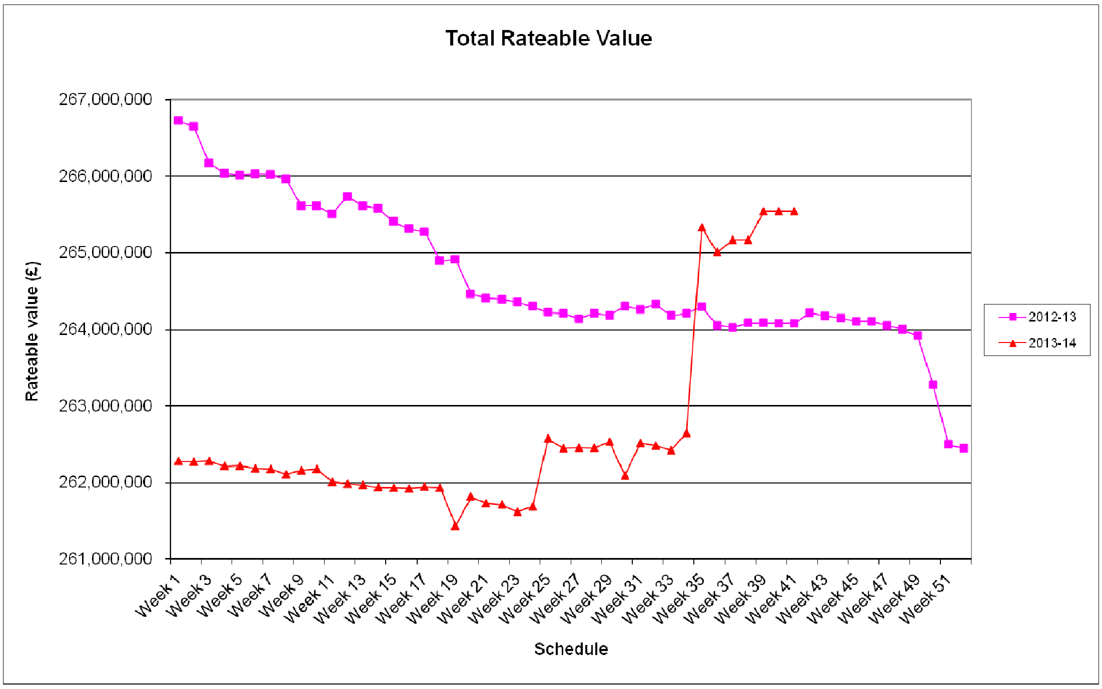
Documents in Members' Rooms

None.

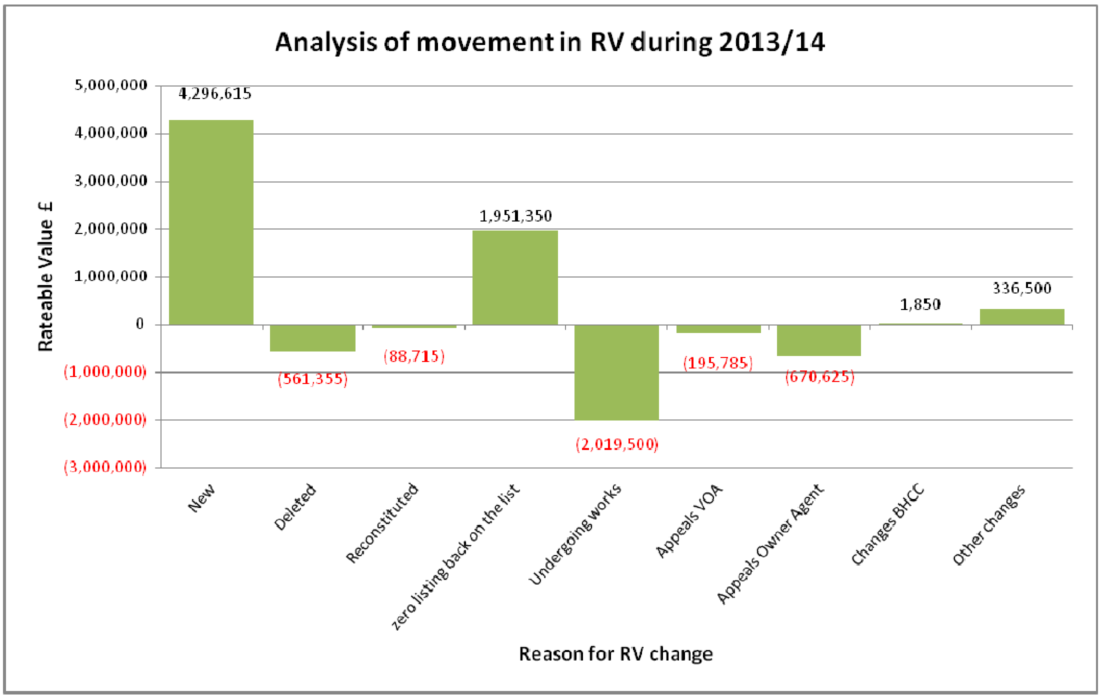
Background Documents

1. Files held with Strategic Finance and Revenues.

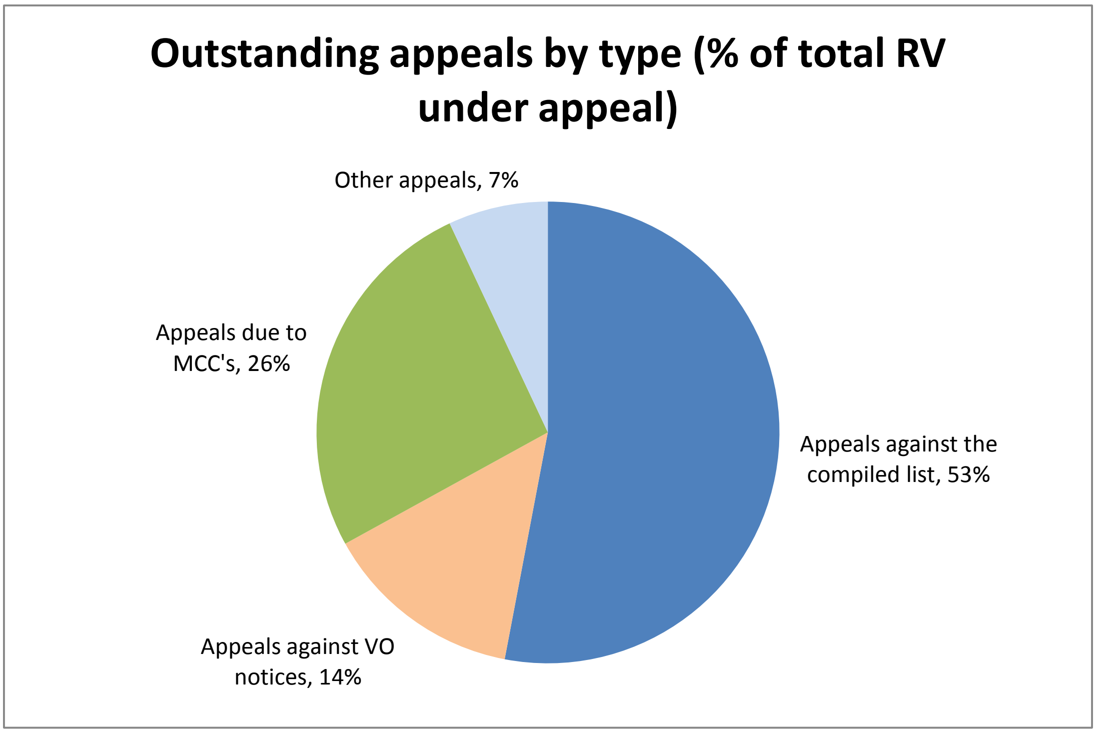
Appendix 1



This graph shows the change in total rateable value (RV) for the whole of Brighton & Hove over the financial years of 2012-13 and 2013-14 to date.



This graph shows the overall change in RV according to the reason for change in 2013-14 to date.



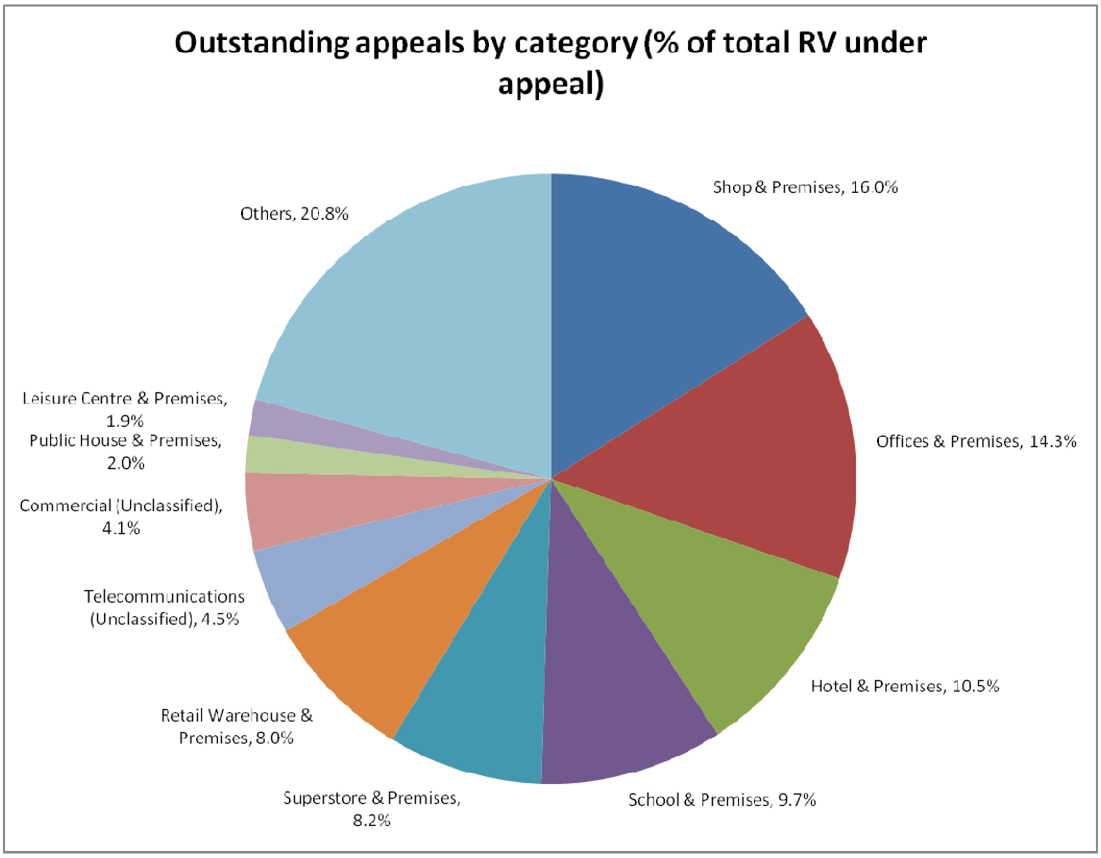
This graph shows the type of appeals made against RV.

Appeals against the compiled list: Compiled list entries in a rating list are those that were actually in the list at the point that the list first came into effect. List entries that are made later or compiled list entries that are subsequently altered, irrespective of the effective date, are not compiled list entries. Every ratepayer has the right to appeal their 'Compiled List' RV, and there could be several reasons for this. For example - they might think that the survey details the VOA have on the property are incorrect, the rent they pay is much lower than the RV or because they are making comparison to a similar property with a lower RV. These will constitute the vast majority of appeals received in the first year of a new rating list.

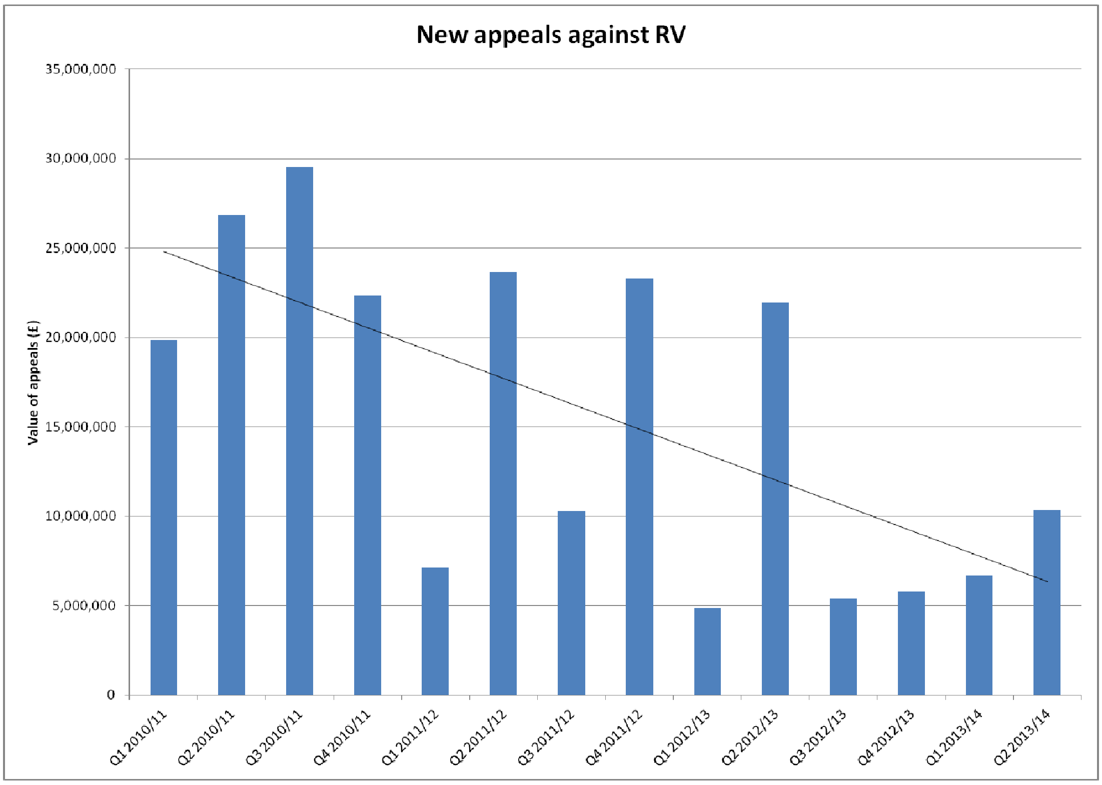
Appeals against Valuation Office notices: These are appeals against a 'Notice of Alteration' issued when the rating list is changed as a result of a report being actioned. The reasons for this will be the same as above.

Appeals due to Material Changes in Circumstances (MCC's): This is where physical changes to the location, like new shopping centres opening or roadworks taking place, or changes to the property itself, such as part being demolished or rooms being converted to living accommodation, could affect the RV.

(Definitions supplied by the VOA)



This graph shows the top 10 categories for appeals.



This graph shows the value of RV appealed during each quarter going back to the start of 2010-11.