POLICY, RESOURCES & GROWTH COMMITTEE	Agenda Item 107 Brighton & Hove City Council

Subject:		**Business Rates Retention Forecast 2019/20**	
Date of Meeting:		**24 January 2019**	
Report of:		**Executive Director of Finance & Resources**	
Contact Officer:	**Name:**	**James Hengeveld**	**Tel: 29-1242**
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Ward(s) affected:		**All**	

FOR GENERAL RELEASE

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 there is considerable volatility in business rates income which makes it difficult to forecast, and the council is highly reliant on the data and decisions of the Valuation Office Agency (VOA).

1.2 The Ministry for Housing, Communities and Local Government ('MHCLG') issued the NNDR1 2019/20 form on 17 December 2018, which gathers and reports the estimated business rates expected to be collected by the council next year. The NNDR1 form must be submitted to CLG and the Fire Authority by 31 January 2019. To accommodate any updated information becoming available ahead of the deadline, delegated authority to the Executive Director of Finance & Resources following consultation with the Chair is requested in order to agree the final form. Any amendments to the final NNDR1 form will be reflected in the budget report to this committee in February.

2. RECOMMENDATIONS:

That Policy, Resources & Growth Committee:

2.1 Notes that the amount forecast to be received by the council in 2019/20 from its share of local business rates and section 31 Local Government Act 2003 compensation grants is £64.897m, based on the latest data. This is £0.403m above the forecast used in the December Draft Revenue Budget proposals report.

2.2 Delegates the agreement of the final business rates forecast and the NNDR1 2019/20 form to the Executive Director of Finance & Resources following consultation with the Chair of this Committee for the reasons given in paragraph 1.2.

2.3 Approves the proposed Retail Relief Scheme for two years from 2019/20 as outlined at paragraph 3.13.

3. CONTEXT/ BACKGROUND INFORMATION

3.1 Business rates are a property tax based on the rateable value (RV) of each non-domestic property which is determined by the Valuation Office Agency (VOA). At 19 December 2018 the RV for Brighton and Hove on the 2017 rating list was £310.719m.

3.2 As with previous rating lists the 2017 list is subject to an appeals process and a judgement is made on the level of successful appeals that are estimated to reduce the council's business rates income.

3.3 To calculate the bill for each property on the rating list, a multiplier is applied to the RV. There are two multipliers set nationally: the small business non-domestic multiplier which is used for properties with a RV below £51,000; and the non-domestic multiplier due on properties above this level. The provisional small business non-domestic multiplier for 2019/20 is 49.1p in the pound and the provisional non-domestic multiplier is 50.4p.

3.4 Certain categories of occupation are entitled to relief against their business rates bill, for example small businesses and charities receive mandatory relief. Local authorities may also provide relief on a discretionary basis for particular types of occupier.

3.5 There are certain reductions in business rates income resulting from government announcements on reliefs and multiplier caps. Local authorities will continue to be refunded for the loss in receipts as a result of these announcements through section 31 compensation grants. Therefore, the overall resources generated through business rates retention is a combination of business rates income and section 31 grants.

3.6 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% being paid to the government.

Business Rates Collection Fund latest position 2018/19

3.7 The monitoring of business rates income during 2018/19 is reported to this committee through the Targeted Budget Management (TBM) reports. The last forecast at TBM month 7 was a deficit of £3.957m at year-end (last year was similar at £3.951m) of which the council's 49% share is £1.939m and after allowing for the impact of timing differences to Section 31 grant this reduces to £1.602m. The council has set aside £1.214m from the Royal Pavilion refund to offset the council's 49% share of the deficit from the refund as the council was the beneficiary. Therefore, the net unfunded deficit for the council is £0.388m. This will be updated ahead of the 31 January deadline to take into account the most up to date information available in order that the relevant section of the NNDR1 form can be completed. This will be reported to this committee in both the TBM month 9 and budget reports.

Business Rates estimate for 2019/20

3.8 The business rates multipliers have been increased by September CPI at 2.4% rather than September RPI of 3.3% following an announcement in the Autumn Budget statement in 2017. This reduces the level of business rates income to the authority however government compensate for this loss of income through the section 31 grant for the multiplier cap.

3.9 The most significant factor in determining forecasts of future business rates income is the level of successful appeals. Other factors taken into account are additions and deletions to the rating list and any significant changes to mandatory and discretionary reliefs. As such business rates income can be volatile.

Gross rates payable

3.10 Based on the 2017 rating list at 19 December 2018, the gross rates payable for 2019/20 are £152.563m. An allowance is made for a change in the gross rates payable to reflect the forecast change in liability from new properties, deleted properties and other changes to rateable value (excluding appeals). It is estimated there will growth of £1.696m in 2019/20 due to new developments, identification of additional rateable value from improvements made to properties and any missing properties from the rating list. Developments in the growth forecast include the Brinell Office building, a hotel at Queens Square and various shops and property units in the North Street / Hannington Lane area.

Transitional Arrangements

3.11 As part of the 2017 revaluation and in line with previous revaluations there are transitional arrangements to smooth out the impact of major changes to business rates bills. The NNDR1 forecasts ratepayers receiving transitional relief of £2.665m and paying a transitional surcharge of £0.184m in 2019/20. The net cost of the transitional arrangements of £2.481m in Brighton and Hove is funded entirely by government.

Small Business Rates Relief (SBRR)

3.12 The government revised the methodology for calculating the level of section 31 grant funding due to authorities to compensate for the loss of income resulting from threshold changes implemented in 2017/18 to SBRR. The proposed methodology results in a higher section 31 grant than had been assumed for threshold changes by £0.210m. The NNDR1 form now includes full compensation for the SBRR changes (permanent doubling of SBRR and threshold changes) and the council is forecast to receive section 31 grant of £4.005m for SBRR.

Discretionary Reliefs funded through section 31 grants

3.13 A new business rates retail relief scheme giving a one third discount on the rates bill for occupied retail properties with a rateable value of less than £51,000 was announced in the 2018 Autumn Budget. The scheme will operate for two years starting in 2019/20 and authorities will be compensated for the reduced business rates income from awarding this relief by section 31 grant funding. The relevant software update has not been released to calculate this retail relief and therefore the NNDR1 has been based on a manual exercise to estimate the value of retail relief to be awarded. This will be updated in the final NNDR1 if the software update is available by the submission date.

3.14 The retail relief forecast to be awarded to eligible ratepayers in 2019/20 is £5.305m and the council's share of reduced business rates income from this relief is £2.684m. Government will compensate the council in full for the reduction through a section 31 grant.

3.15 There are two other business rates relief schemes, introduced in a previous Spring Budget, to deal with the impact of revaluation. These will continue in 2019/20 which is the third year of the discretionary fund and supports small businesses by placing a limit on increases. The council is compensated for its share of reduced business rates income from awarding this relief by section 31 grant funding, estimated at £0.199m.

Appeals

3.16 The council needs to make a judgement on the level of successful appeals against the 2017 rating list as this reduces business rates income the council will receive in 2019/20. At this stage the new appeals process implemented for the 2017 list only provides limited information on which to gauge the level of successful appeals. The estimate of reduced liability from successful appeals for 2019/20 has therefore been based on national assumptions. The methodology for the appeals provision will be amended in future year's dependant on the level of appeals lodged.

Overall business rates forecast for 2019/20

3.17 The following tables summarises the components of the business rates retention income due to the council:

Brighton & Hove City Council share of business rates	**£ million**
Brighton & Hove City Council 49% share of non-domestic rating income (Part 1B line 15 on NNDR1 form)	-57.244
Section 31 compensation grants from government (Part 1C line 40 on NNDR1 form)	-9.083
Tariff Payment (includes section 31 impact from the multiplier cap of £0.038m)	+1.203
Levy payment	+0.137
Total of business rates income retained by the council	**-64.987**

3.18 The business rates income of £64.987m exceeds the forecast made in the Draft Revenue Budget proposals 2019/20 report to this committee on 6 December 2018 by £0.403m. The main reasons for this change are increased rateable values identified as missing from the 2017 list and the increased SBRR threshold section 31 grant that is referenced at paragraph 3.12.

Future changes to the business rates retention scheme

3.19 From 2020/21 the business rates retained locally will increase from 50% to 75% and government aim to implement reforms to the business rates retention system at the same time. The most recent consultation, issued in December 2018, is seeking views on continuing to provide a strong incentive for local authorities to grow their business rates base, mitigating the volatility of business rates appeals on income, reducing complexity in the business rates system. A further consultation will follow in Summer / Autumn 2019 to include details of implementation and transition. This should assist in quantifying the potential change in business rates income from 2020/21 as this remains uncertain at present.

3.20 In December 2018 there were 15 areas announced as successful in their bid to pilot 75% business rates retention in 2019/20, alongside Devolution Deal areas and London who had already been announced as pilot areas. Although Brighton & Hove is not involved as a pilot, the council will be monitoring progress, and through Orbis, will have access to first-hand experience from East Sussex County Council.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

4.1 The completion of the NNDR1 form is prescribed in the completion guidance notes from MHCLG.

5. COMMUNITY ENGAGEMENT & CONSULTATION

5.1 The council has a duty to consult representatives of business ratepayers on the council's overall budget and this consultation will take place before the February Policy, Resources & Growth Committee.

6. CONCLUSION

6.1 The council has a statutory duty to agree a business rates forecast, set out a forecast surplus or deficit for 2018/19 and submit an NNDR1 form by the 31 January 2019.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

7.1 The forecast business rates income, including section 31 business rates grants, is £0.403m above the forecast used in the Draft Revenue Budget proposals report to this committee on 6 December 2018. This will be incorporated into the budget report to this committee in February subject to any changes made to the final NNDR1 form. The council's share of the business rates collection fund deficit will also be included within the budget forecast for 2019/20.

7.2 The overall increase in business rates income compared to 2018/19, including CPI increases and changes to reliefs, tariffs and levies, is £3.501m, an increase of 5.7%.

Finance Officer Consulted: James Hengeveld *Date: 14/1/19*

Legal Implications:

7.3 Under Part 2 of the Non-Domestic Rating (Rates Retention) Regulations 2013 (SI 2013/452), 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 1 April 2019, these amounts must be determined by 31 January 2019.

7.4 This is not a function reserved to Full Council by legislation or local agreement and it is therefore appropriate for this matter to be decided by Policy, Resources & Growth Committee as the calculation of business rates is within its terms of reference.

Lawyer Consulted: Elizabeth Culbert *Date: 11/01/19*

Equalities Implications:

7.5 None specific to this report.

Sustainability Implications:

7.6 The changes to business rates reliefs and thresholds could have a beneficial impact on the economic health of the city.

Any Other Significant Implications:

Risk and Opportunity Management Implications:

7.7 Business rates income is volatile and difficult to predict so therefore needs close monitoring. 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 a small number of large businesses or any particular type of business so the risks here are relatively lower. However, the council may wish to consider the merits of pooling in future years.

Corporate / Citywide Implications:

7.8 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. Draft National Non-Domestic Rates Return - NNDR1 2019/20

Documents in Members' Rooms:

None.

Background Documents:

1. Files held with Finance and Revenues.