

Subject: Business Rates Retention Forecast 2020/21
Date of Meeting: 23 January 2020
Report of: Acting Chief Finance Officer
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 & Local Government ('MHCLG') issued the National Non-Domestic Rates form (NNDR1) for 2020/21 on 27 December 2019, which gathers and reports the estimated business rates expected to be collected by the council next year. The NNDR1 form must be submitted to MHCLG and the Fire Authority by 31 January 2020. To accommodate any updated information becoming available ahead of the deadline, delegated authority to the Acting Chief Finance Officer 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.
- 1.3 Brighton and Hove's business rates income remains buoyant as a result of new developments across the city despite the increasing concerns over the retail and public house sectors. There are increased numbers of businesses entering into Company Voluntary Arrangements where debts are reduced to support the ongoing viability of a business. In the Queen's Speech the government set out plans to provide additional business rates relief for the retail sector, cinemas, music venues and pubs. The government also committed to conducting a fundamental review of business rates.

2. RECOMMENDATIONS:

That Policy & Resources Committee:

- 2.1 Notes that the amount forecast to be received by the council in 2020/21 from its share of local business rates and section 31 Local Government Act 2003 compensation grants is £67.077m, based on the latest data. This is £0.341m (0.5%) 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 2020/21 form to the Acting Chief Finance Officer following consultation with the Chair of this Committee for the reasons given in paragraph 1.2.

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). As at 18 December 2019 the RV for Brighton and Hove on the 2017 rating list was £311.151m reflecting changes from new properties, deleted properties and successful appeals.
- 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 2020/21 is 49.9p in the pound and the provisional non-domestic multiplier is 51.2p.
- 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 income as a result of these announcements through grant known as section 31(S31) compensation grants. Therefore, the overall resources generated through business rates retention is a combination of business rates income and S31 grants.
- 3.6 The business rates retention scheme has been in place since 2013/14 and currently 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.
- 3.7 The government has been planning for a number of years for council's to keep a greater proportion of business rates income to provide a greater growth incentive, most recently to increase to 75% from 50%. However, the introduction of this change has been further delayed to at least 2021/22 and will now be subject to the government's proposed fundamental review of the business rates system.

Business Rates Collection Fund latest position 2019/20

- 3.8 The monitoring of business rates income during 2019/20 is reported to this committee through Targeted Budget Management (TBM) reports. The last forecast at TBM month 7 was a break even position although the continued pressure on the retail sector is creating an increasing number of Company Voluntary Arrangements, in many cases resulting in reduced business rates liabilities and therefore restricting growth in business rates. 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 General Fund Revenue Budget reports.

Business Rates estimate for 2020/21

- 3.9 The business rates multipliers have been increased by September CPI at 1.7% rather than September RPI of 2.4% in line with the announcement made in the Autumn Budget Statement 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.
- 3.10 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 empty relief and other mandatory and discretionary reliefs. As such business rates income can be volatile.

Gross rates payable

- 3.11 Based on the 2017 rating list at 18 December 2019, the gross rates payable for 2020/21 are £155.264m. 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 be growth of £2.109m in 2020/21 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 for properties not currently in the rating list include the Brinell Office building, a hotel at Queens Square and various shops and property units in the North Street / Hannington Lane area. It also includes Circus Street and the first phase of development at Preston Barracks.

Small Business Rates Relief (SBRR)

- 3.12 The forecast value of SBRR to be awarded in 2020/21 is £11.829m. Government provides compensation for the permanent doubling of SBRR and threshold changes through section 31 grant and this is forecast at £4.559m.

Empty Relief

- 3.13 The level of empty relief awarded is increasing and this is forecast to be £3.938m for 2020/21. Whilst most empty relief is for 3 or 6 months there are some categories where there is no restriction on the length of award, these include properties with businesses in liquidation and listed buildings.

Discretionary Reliefs funded through section 31 (S31) grants

- 3.14 The December 2019 Queen's speech included an announcement that the retail relief scheme would be increased from a one third discount to a 50% discount. The scheme will also be extended to include cinemas and music venues and will also introduce an additional discount for pubs. Authorities are fully compensated for the reduced business rates income from awarding these reliefs through S31 grant funding.

- 3.15 There are two other business rates relief schemes, introduced in a previous Spring Budget, to deal with the impact of revaluation which will continue in 2020/21. These are a discretionary fund and supporting small businesses.
- 3.16 The discretionary fund allocated for Brighton and Hove was initially £1.123m in 2017/18 and tapered down over a 4 year period; the council set the criteria for the allocation of this relief which was approved at Policy, Resources & Growth Committee on the 12 October 2017. The 2020/21 allocation is the fourth and final year and for Brighton and Hove the allocation is £0.032m. The council is fully compensated for its share of reduced business rates income from awarding this relief through section 31 grant funding.
- 3.17 Supporting small businesses was a scheme to help ratepayers who faced large increases in their bills due to their new rateable value from revaluation causing a loss in some or all of their small business relief. This scheme caps the increase in their bills from one year to the next. The estimated award in 2020/21 is £0.201m and the council is fully compensated for its share of reduced business rates income from awarding this relief through section 31 grant funding.

Estimated Bad Debts

- 3.18 It is estimated that 1.25% of the net rates payable in respect of 2020/21 will ultimately be written off as bad debt amounting to £1.573m. This is an increase of 0.25% from last year and reflects the increasing number of Company Voluntary Arrangements for retail properties within Brighton & Hove which often result in an element of debt being written off.

Appeals

- 3.19 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 2020/21. The new appeals process implemented for the 2017 list is still only providing limited information on which to gauge the level of successful appeals. This is a national issue and both councils and the Local Government Association continue to lobby for improvements in the information and the time taken to resolve appeals. The council still has 391 appeals outstanding from the 2010 revaluation and there remain 2 appeals unresolved from 2005. The estimate of reduced liability from successful appeals for 2020/21 has therefore continued to be based on national assumptions. The methodology for the appeals provision will be amended in future year's dependant on the information available from the VOA and the level of appeals lodged.

Overall business rates forecast for 2020/21

- 3.20 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)	-58.906
Section 31 compensation grants from government (Part 1C line 39 on NNDR1 form)	-9.483
Tariff Payment (includes section 31 impact from the multiplier cap of £0.048m)	+1.232
Levy payment	+0.080
Total of business rates income retained by the council	-67.077

- 3.21 The business rates income of £67.077m exceeds the forecast made in the Draft Revenue Budget proposals 2020/21 reported to this committee on 5 December 2019 by £0.341m. The main reasons for this change are higher than anticipated business rates from new properties.

Future changes to the business rates retention scheme

- 3.22 The proposal to increase locally retained business rates from 50% to 75% has been delayed and will not be introduced until at least 2021/22. The Fair Funding Review is also delayed and this has an integral link to the resetting of the business rates baseline that is used to reward business rates growth. In addition to these delays, a new rating list will be in place from 2021/22 and will be updated every 3 years in future. It therefore remains difficult at present to quantify the potential change in business rates income from 2021/22 due to the uncertainties on detail and timing of the business rates retention scheme.

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 Committee.

6. CONCLUSION

- 6.1 The council has a statutory duty to agree a business rates forecast for 2020/21, set out a forecast surplus or deficit for 2019/20 and submit an NNDR1 form by the 31 January 2020.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The forecast business rates income, including section 31 business rates grants, is £0.341m above the forecast used in the Draft Revenue Budget proposals reported to this committee on 5 December 2019. 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 any business rates collection fund deficit or surplus will also be included within the budget forecast for 2020/21.

- 7.2 The overall increase in business rates income compared to 2019/20, including CPI increases and changes to reliefs, tariffs and levies, is £2.090m, an increase of 3.1%.

Finance Officer Consulted: James Hengeveld

Date: 07/1/20

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 2020, these amounts must be determined by 31 January 2020.
- 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 Committee as the calculation of business rates is within its terms of reference.

Lawyer Consulted: Elizabeth Culbert

Date: 13/01/20

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 increasing number of companies entering into Company Voluntary Arrangements particularly in the retail sector represents a significant financial risk to the council; however the new developments of office accommodation across the city are helping to offset this risk at present. The system allows councils to spread the volatility risks with other councils by pooling with other authorities. 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:

None.

Documents in Members' Rooms:

None.

Background Documents:

1. Files held with Finance and Revenues.

