POLICY & RESOURCES COMMITTEE	Agenda Item 129 Brighton & Hove City Council

Subject:		**Business Rates Retention Forecast 2021/22**	
Date of Meeting:		**21 January 2021**	
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 return (NNDR1) for 2021/22 on 18 December 2020, 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 2021. To accommodate any updated information becoming available ahead of the deadline, a delegation of authority to the Acting Chief Finance Officer following consultation with the Chair is requested in order to agree the final return. Any amendments to the final NNDR1 return will be reflected in the budget report to this committee in February.

1.3 Brighton & Hove's business rates income is being impacted by the effects of Covid-19 and assumptions around empty business premises and delays in the development of new business space have been reflected in the business rates forecast. The government has indicated there will be a range of targeted rate reliefs to support certain businesses but this is not expected to be announced until March and therefore cannot be included in this forecast but does not affect the overall income forecast.

2. RECOMMENDATIONS:

That Policy & Resources Committee:

2.1 Notes that the amount forecast to be received by the council in 2021/22 from its share of local business rates and section 31 Local Government Act 2003 compensation grants is £67m, based on the latest data.

2.2 Delegates the agreement of the final business rates forecast and the NNDR1 2021/22 return 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 30 December 2020 the RV for Brighton and Hove on the 2017 rating list was £310.218m 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 2021/22 is 49.9p in the pound and the provisional non-domestic multiplier is 51.2p which is frozen at the level in 2020/21.

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 from 50% to 75%. However, the introduction of this change has been further delayed to at least 2022/23 and will now be subject to the government's proposed fundamental review of the business rates system.

Business Rates Collection Fund latest position 2020/21

3.8 The monitoring of business rates income during 2020/21 is reported to this committee through Targeted Budget Management (TBM) reports. The forecast at TBM month 7 was for the Business Rates collection fund to be in deficit by £7.184m. This is based on the estimated impact of COVID-19 on the collection of business rates income and potential business failures equating to 5% of the original net rates payable, and also increased empty property reliefs. The council's 49% share of the deficit is £3.520m, however the government has announced it will provide grant funding of 75% of the deficit (subject to final clarification of any exclusions). In addition, the government is allowing councils to spread the deficit across the next 3 years. The deficit 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 2021/22

3.9 The business rates multipliers have been kept at the same level as 2020/21. This reduces the level of business rates income to the authority however the government will compensate for the difference to the September RPI rate of 1.1% through the section 31 grant for the multiplier cap. This increase has been included in the projection.

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, any significant changes to empty relief and other mandatory and discretionary reliefs. Covid-19 is adding further uncertainty in forecasting as it will have a financial impact in the current and future years. Therefore, business rates income will continue to be volatile.

Gross rates payable

3.11 Based on the 2017 rating list at 30 December 2020, the gross rates payable for 2021/22 are £154.799m. 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 assumed that there will be no growth overall as delays in developments has meant that the assumed growth in 2020/21 has not materialised but it is assumed that it will come through by the end of 2021/22.

Small Business Rates Relief (SBRR)

3.12 The forecast value of SBRR to be awarded in 2021/22 is £11.588m. The council's share of this reduction is £5.678m and the government provides compensation towards these awards of an estimated £4.489m.

Empty Relief

3.13 The level of empty relief awarded is projected to substantially increase as a result of business failures within the city due to both the pandemic and the changing structure of the retail sector which had already begun to see high profile failures prior to the pandemic. The assumption is this will increase from £3.9m assumed for 2020/21 to £5.5m in 2021/22. Whilst most empty relief is for 3 or 6 months, there are some categories of business premises where there is no restriction on the length of award. These include properties with businesses in liquidation and listed buildings, therefore this step increase in empty relief could impact income in future years.

Discretionary Reliefs funded through section 31 (S31) grants

3.14 The government introduced an unprecedented range of additional discretionary reliefs to support business through the pandemic during 2020/21 resulting in over 50% of business rates bills being funded through S31 grant rather than the ratepayer. The government has indicated it will introduce targeted reliefs for 2021/22 however these are not expected to be announced until the government publishes the Spring Budget on 3rd March 2021.

Estimated Bad Debts

3.15 It is estimated that 1.25% of the net rates payable in respect of 2021/22 will ultimately be written off as bad debt amounting to £1.604m. The expected increase in bad debts from the current financial year is reflected in the collection fund deficit included at paragraph 3.8.

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 2021/22. The council still has over 200 appeals outstanding from the 2010 revaluation and there remains 1 appeal unresolved from 2005. The new Check, Challenge, Appeal process introduced in 2017 provides limited information with which to estimate likely successful appeals and therefore the projections continue to be based on national assumptions. There has been an increase in the number of businesses appealing their rates due to the impact of Covid-19 however it is too early to gauge the response from the VOA and the potential financial impact which would have national implications.

Overall business rates forecast for 2021/22

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	-60.559
Section 31 compensation grants from government	-7.773
Tariff Payment (includes section 31 impact from the multiplier cap of £0.048m)	+1.246
Levy payment	+0.086
Total of business rates income retained by the council	**-67.000**

3.18 The business rates income of £67.000m marginally increases the assumed income in the Budget Update report to this committee in December 2020 by £0.012m.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

4.1 The completion of the NNDR1 return 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 proposals 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 2021/22, set out a forecast surplus or deficit for 2020/21 and submit an NNDR1 return by the 31 January 2021.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

7.1 The forecast business rates income, including section 31 business rates grants, is £0.012m above the forecast used in the Draft Revenue Budget proposals reported to this committee on 3 December 2020. This will be incorporated into the budget report to this committee in February subject to any changes made to the final NNDR1 return. The council's share of any business rates collection fund deficit or surplus will also be included within the budget forecast for 2021/22.

Finance Officer Consulted: James Hengeveld *Date: 11/01/21*

Legal Implications:

7.2 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 2021, these amounts must be determined by 31 January 2021.

7.3 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: 11/01/21*

Equalities Implications:

7.4 None specific to this report.

Sustainability Implications:

7.5 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:

7.6 Business rates income is volatile and difficult to predict so therefore needs close monitoring. The increasing number of business failures due primarily to Covid 19 represents a significant financial risk to the council although the retail sector was already under pressure prior to the pandemic.

Corporate / Citywide Implications:

7.7 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 teams.