POLICY & RESOURCES COMMITTEE	Agenda Item 110 Brighton & Hove City Council

Subject:		**Business Rates Retention forecast 2013/14**	
Date of Meeting:		**24th January 2013**	
Report of:		**Director of Finance**	
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 Council Procedure Rule 3, Access to Information Procedure Rule 5 and Section 100B(4) of the Local Government Act 1972 (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) were that further relevant guidance from the Department for Communities and Local Government (CLG) that was required to calculate the business rates forecast had not been received.

1. SUMMARY AND POLICY CONTEXT:

1.1 Members will be aware that major changes to the funding of local government will be made from the 1 April 2013. These changes include the retention by councils of 50% of local collected business rates. There is therefore a new statutory requirement placed on all collection authorities to calculate how much business rates income each authority is likely to receive for the coming year. It must be stressed that whilst business rates provides a new source of funding to local authorities it is not additional income and replaces income previously received through government grant for general council services. It is also important to remember that the government continues to set business rates nationally.

1.2 The purpose of this report is for Members to agree the business rates forecast for 2013/14 as set out in the proposed NNDR1 2013/14 form (this represents the estimated business rates expected to be collected by the council next year) which needs to be sent to government and the fire authority by 31St January 2013.

2. RECOMMENDATIONS:

That Policy & Resources Committee:

2.1 Agree the business rates forecast with the amount to be retained of £49.235m as set out in the NNDR1 2013/14 form at appendix 1.

2.2 Note the technical issues relating to future successful business rate appeals and refunds raised in the response to the provisional grant settlement set out in appendix 2 and the potential impact on the budget.

2.3 Note the positive outcome of the independent review of the council's current systems for identifying changes to the rating list and informing the Valuation Office set out in paragraph 3.25 and the improvements suggested.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

Business Rates Background

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 £264m. 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). The appeals process is also administered by the VOA and appeals can often take several years to resolve. Consultation with local business ratepayers representatives indicated that they expect the delay to the next revaluation to result in a significant increase in the number of local appeals lodged as this is the only way for businesses to reduce their rates bill from a valuation made at the peak of the market.

3.2 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 index linked to the Retail Price Index. The standard multiplier for 2013/14 is 47.1p in the pound but a lower rate of 46.2p applies to small businesses with a rateable value of less than £18,000. The Autumn Statement extended further relief for small businesses into 2013/14 of up to 100% for those with a rateable value of £12,000 or less. It also increased the exemption for Empty Property Relief for newly built commercial properties from October 2013 which will be funded by the government outside the rate retention scheme.

3.3 Certain categories of occupation are entitled to relief against their annual rates bill for example charities receive mandatory relief of up to 80%. Local authorities may also provide relief on a discretionary basis for particular types of occupier (known as Localism Act discounts).

3.4 Until 1st April 2013 local authorities are responsible for billing and collection of business rates only with all the income passed on to the Treasury. Income from business rates varies significantly from one year to the next and is hard to predict.

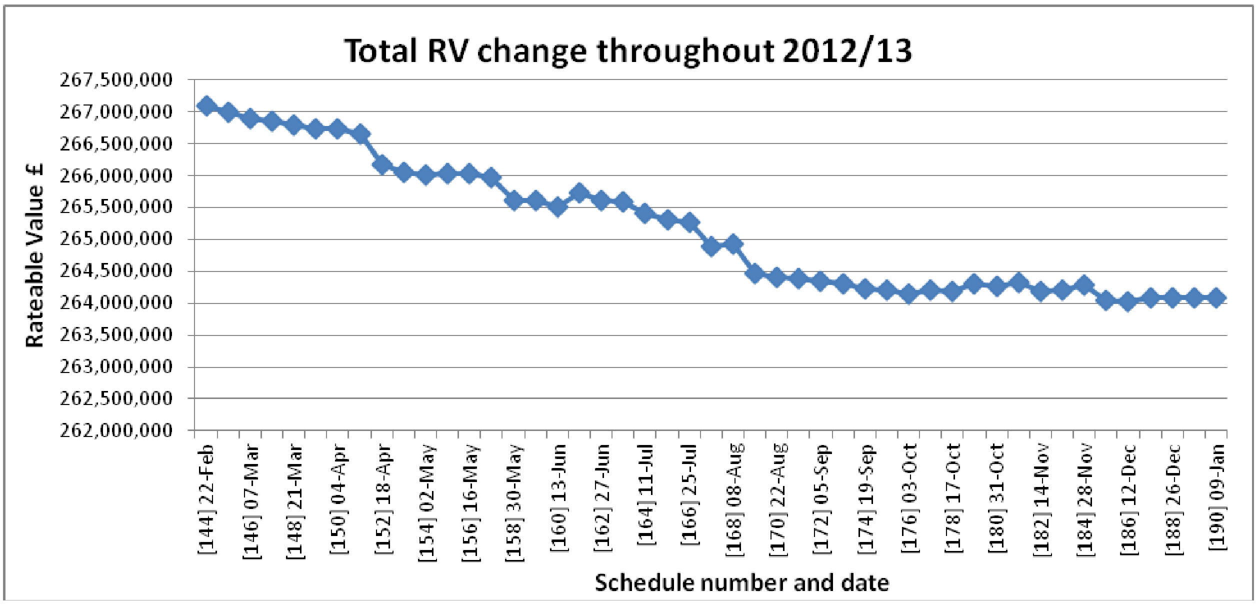
New Business Rates Retention System

3.5 From 1st April 2013 the new Business Rates Retention means that the council will continue to bill and collect business rates but will retain 49% of the income. Of the remainder 50% will be paid to the Treasury and 1% to East Sussex Fire Authority. This provides a new incentive for the council to grow local business rates income however the opportunities for this council are limited with the South Downs National Park on one side and the sea on the other. Members will also be aware that improving the local economy and increasing jobs does not necessarily create business rates income which is generated by new buildings.

3.6 The Treasury have determined the national aggregate of business rates income for all authorities taking into account their estimates of future successful appeals and refunds. This national total has been divided up between councils based on their proportion of the national business rates collected in 2010/11 and 2011/12. The Brighton & Hove City Council share is £50.079m and this figure is used in the determination of the amount of Government Grant the council will receive in 2013/14 and beyond.

Business Rates Monitoring in 2012/13

3.7 Since February last year 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 below shows that rateable value has reduced by about £3m or 1.1% since February although the reduction seems to have levelled out since the beginning of August.



3.8 Each of the schedules has also been analysed to determine why the rateable value is changing. This analysis shows that the reduction is entirely due to successful rating appeals with a £3.3m reduction equivalent to about £315,000 or 0.12% reduction in rateable value per month. This reduction is more the double the national provision made by the Treasury of 0.05% per month.

3.9 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 2012/13 in most cases a successful appeal will result in business rates refunds for 2010/11 and 2011/12 as well. Monitoring of the business rates liability for the current year shows reductions of £3.9m in total of which £1.4m relates to the current year and £2.5m to earlier years (i.e. refunds).

3.10 It is therefore clear from the in-year monitoring that the most significant factors in determining forecasts of future business rates income are 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

3.11 The council does not have officers experienced in the appeals process and employs Wilks Head & Eve (WHE) to pursue business rate appeals against the rateable values of relevant council owned or occupied properties. WHE are therefore well placed to make professional judgements on the likely success of appeals already lodged and potential future appeals. They were appointed in November 2012 to undertake this work looking at properties with rateable values of more than £5,000.

3.12 The VOA sent data to the council on outstanding appeals at the end of November. The table below summarises that data which shows that one third of the current rateable value is under appeal. Based on a successful national appeals rate of 30% and an average reduction of 10% on each successful appeal this would mean an income reduction to the council of about £0.6m relating to existing 2010 list appeals. However this does not take into account local circumstances.

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	

3.13 WHE advise that the majority of outstanding 2005 appeals are related to air-conditioning in shops and will be withdrawn so no provision is proposed for these appeals. Their analysis of the 2010 list and the VOA information on outstanding appeals shows that successful appeals during 2013/14 are estimated to generate a reduction of about 1.18% in total rateable value. An estimate of 0.34% of total rateable value has also been made to cover the impact of successful appeals during the remainder of this financial year.

3.14 In addition 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.

A provision of 0.25% of total rateable value has also been made for 2013/14 to cover successful appeals of this nature bringing the total provision to 1.77% for the period up to 31st March 2014. These figures are broadly consistent with the level of successful appeals agreed over the last year.

3.15 In cash terms this means a reduction in the business rates income forecast for 2013/14 of £2.2m (the council's share being 49% or £1.1m). However, the successful appeals also generate refunds in the majority of cases relating to 2010/11, 2011/12 and 2012/13. These refunds are forecast to be £4.8m in total (the council's share being £2.4m). CLG guidance now indicates that the provision for appeals and refunds to be included in line 35 of NNDR1 should cover the council's estimated cost of appeals settled after 30 September 2012 and before 1 April 2014 so a total figure of £7m has been included.

3.16 Forecasts have also been made for the following 3 years i.e. the period up to the next revaluation due in 2017. These forecasts together with the forecast for 2013/14 show that the council's total estimated share of lost income due to successful appeals will be about £3m per annum by 2017 with £7.6m one-off refunds relating to pre 1st April 2013. Officers are currently considering how to reflect these numbers in the budget for 2013/14 and the medium term financial strategy and will include recommendations in the budget report to be considered in February.

3.17 The business rates retention system treatment of appeals and refunds as proposed raises challenging accounting issues where officers are awaiting regulations from CLG (expected before the end of this financial year) and guidance from CIPFA on how to reflect them in financial statements. Improvements could be made to reduce unfairness and help local authorities to develop risk mitigation measures. These are covered in the technical response on the provisional local government finance settlement submitted to CLG by the deadline of 15 January which is attached at appendix 2.

Additions and deletions to the rating list

3.18 Finance officers have met with officers from Planning, Economic Development 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 remains largely unchanged over the last year. It is anticipated that this will remain the position over the coming year with new developments being offset by deletions elsewhere for example the new rateable value from development of the new TKMaxx store on North Street may well be offset by other retail closures across the city.

3.19 However, there are 3 specific and significant developments where there is unlikely to be any immediate offset: the new Amex Offices (completed), Montefiore Private Hospital (completed) and The Keep (due to be completed in June). The rateable value of these properties has been estimated by WHE and has been adjusted for the part year effect of The Keep. These properties add an additional £4m to the rateable value in 2013/14 which has been included in line 33 of the proposed NNDR1. This additional rateable value creates additional income for the council of approximately £0.9m in 2013/14. Future forecasts will need to take account of the planning condition which requires demolition of the existing Amex Offices within 5 years.

Changes to mandatory and discretionary reliefs

3.20 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 £1.8m in 2012/13 which will reduce if any of the schools transfer. Only Whitehawk Primary is due to become an academy during 2013/14 and the impact on business rates income is only £4,000 and therefore de minimis so no adjustment is proposed.

3.21 It has been assumed that budgets for all current discretionary reliefs will be maintained for future years. Local authorities have been given new powers to award further discretionary reliefs under the Localism Act. Previous reports to this Committee have indicated that the council should consider the use these new powers by setting aside a budget of £100,000 to encourage new businesses to grow and maintain their presence within the city. Consultation with local business ratepayers representatives will help develop local proposals which will come to a future meeting of this Committee. The new rules mean that the government will pick up 50% of the cost of this relief and therefore a provision of £200,000 has been included in line 18 of the proposed NNDR1.

Business rates forecast for 2013/14

3.22 The proposed NNDR1 is attached as appendix 1 to this report and shows the net yield from business rates to be £100.4m for next year. This is shared as follows:

- Central government (50%) £50.240m
- Brighton & Hove (49%) £49.235m
- East Sussex Fire Authority (1%) £1.005m

3.23 Members will note that the Brighton & Hove figure is £0.8m below the government assumed income of £50.079m due to the high level of anticipated successful local appeals.

Monitoring and reporting

3.24 As mentioned earlier in this report business rates income is hard to predict and volatile and therefore needs to be closely monitored as the year progresses. Officers have already established monitoring systems to review what has been happening since February last year 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.

Review of systems for the identification of changes to occupier and rateable value within the council

3.25 WHE met with and discussed the operation of current systems within Business Rates, Planning and Building Control which they assessed as by and large working very well and efficiently. They did recommend some improvements relating to improvement notices, gathering information from the web, liaison with highways and licensing, gathering further information from planning applications and the assessment of properties for charitable relief. These improvements should help the council to collect more business rates in the future.

4. COMMUNITY ENGAGEMENT AND CONSULTATION

4.1 The business community will be consulted about how best to introduce new Localism Act discretionary reliefs.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

5.1 Business rates income from 1st April 2013 forms an important new income stream to the council and it is important that the council takes measures to help maximise this income wherever possible. The information set out in this report will inform the amount of income that is assumed for next year within the 2013/14 and future years budgets.

5.2 The work carried out by WHE has been invaluable in determining the amounts to be set aside for appeals and refunds as well as their suggestions about how to improve our current systems set out in paragraph 3.25. The cost of that work has not been finally determined but will not exceed £25,500 and will be met from the monies set aside in the 2012/13 budget for transition to the new Local Government Finance system.

Finance Officer Consulted: Mark Ireland Date: 17/1/2013

Legal Implications:

5.3 It is a requirement of the Non-Domestic Rating (Rates Retention) Regulations 2013 that the council determine a business rates forecast and agree an NNDR1. This must be determined by 31 January 2013. 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.

Lawyer Consulted: Abraham Ghebre-Ghiorghis Date: 18/1/2013

Equalities Implications:

5.4 None.

Sustainability Implications:

5.5 None.

Crime & Disorder Implications:

5.6 None.

Risk and Opportunity Management Implications:

5.7 Business rates income is volatile and hard to predict so therefore needs close monitoring as set out in paragraph 3.24. The new 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. The government gave local authorities very little time to develop pools for 2013/14 and the council has not applied to become part of a local pool. This does not rule out becoming part of a pool in future years and officers will consider the merits of doing so.

Public Health Implications:

5.8 None.

Corporate / Citywide Implications:

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

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

6.1 These are discussed within the body of the report.

7. REASONS FOR REPORT RECOMMENDATIONS

7.1 The council has a statutory duty to agree a NNDR1 form by the 31 January 2013.

SUPPORTING DOCUMENTATION

Appendices:

1. Proposed NNDR1 2013-14 form

2. Technical response to the Provisional Local Government Finance Settlement submitted to CLG on 15 January 2013

Documents in Members' Rooms

1. None

Background Documents

1. WHE report held in Strategic Finance
2. Other files held by Strategic Finance and the Revenue Team