POLICY, RESOURCES & GROWTH COMMITTEE	Agenda Item 104 Brighton & Hove City Council

Subject:		**Business Rates Retention Forecast 2017/18**	
Date of Meeting:		**19 January 2017**	
Report of:		**Executive Director for Finance & Resources**	
Contact Officer:	**Name:**	**James Hengeveld**	**Tel: 29-1242**
	Email:	**James.hengeveld@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 (as amended), (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) were that the specialist software used to calculate local authority level data and complete the associated NNDR 1 form was unable to be updated with the relevant parameters for 2017/18. This resulted in more time being required to produce estimates outside of the business rates system, made more complex by taking account of the first revaluation since the business rates retention scheme was introduced and changes to Small Business Rates Relief.

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). There has been additional complexity estimating income in 2017/18 with the 2017 revaluation of business rates being the first under the business rates retention scheme.

1.2 The Department for Communities and Local Government (‘CLG’) issued the NNDR1 2017/18 form on 21 December 2016. Councils are required to use this form to calculate local authority level data and report business rate income to be collected next year. The form must be submitted to CLG and the Fire Authority by 31 January 2017.

1.3 There has however been a delay in CLG establishing the new business rate parameters that would allow councils to supply the required information. This means that the software supplier used by the council cannot provide the relevant system update that will generate the NNDR1 figures until later this month. It has therefore been necessary to produce estimates ‘offline’. These will need to be checked against the system driven figures once the software update is available.

1.4 This report sets out the basis upon which the NNDR1 form will be completed and, due to the delay, requests that Members delegate authority to the Executive Director of Finance & Resources in consultation with the Chair to authorise the final submission. Any amendments to the estimates in this report 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 2017/18 from its share of local business rates and section 31 (Local Government Act 2003) compensation grants is £59.284m, based on the latest data. This is £0.994m above the forecast used in the December 2016 budget update report.

2.2 Delegates the submission of the final business rates forecast and the NNDR1 2017/18 form to the Executive Director of Finance & Resources 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). At 31 December 2016 the RV for Brighton & Hove on the 2010 rating list was £264.754m. The chart in appendix 2 shows how the RV on the 2010 rating list has changed over the last 5 years. There is no obvious pattern year to year, demonstrating the difficulty in forecasting movements.

3.2 The VOA has undertaken a revaluation of all the RV's to produce a 2017 rating list; and this will come into force from 1 April 2017. The revaluation has increased the national rateable value overall by around 11% but, in order to remain fiscally neutral, CLG have reduced the national multiplier before applying inflation. Without further adjustment there would still be significant distributional change amongst individual local authorities. To ensure any gains and losses from revaluation are removed, CLG adjust funding for local authorities either by providing additional funding through a top-up grant, or removing funding through a tariff payment.

3.3 As previously, the 2017 rating list will be subject to an appeals process and therefore a judgement will need to be made on the level of successful appeals that will reduce the council's business rates income.

3.4 To calculate the bill for each property, a multiplier is applied to the RV. There are two multipliers set nationally and these incorporate a reduction for the impact of revaluation and an inflationary increase:-

- The small business rate multiplier which relates to properties with an RV less than £51,000. This threshold has increased from £18,000 in 2016/17. The multiplier has been set at 46.6p in 2017/18.

- The non domestic (standard) multiplier which relates to properties with an RV of £51,000 and above. The multiplier has been set at 47.9p in 2017/18.

3.5 Certain types of occupier 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 in some circumstances.

3.6 There are also certain reductions to 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.

3.7 The business rates retention scheme 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 Government.

Business Rates Collection Fund latest position 2016/17

3.8 The monitoring of business rates income during 2016/17 is reported to this committee through the Targeted Budget Management (TBM) process, and the last forecast at TBM month 7 indicated a forecast deficit of £3.737m at 31 March 2017 of which the council's 49% share is £1.831m. This will be updated ahead of the 31 January NNDR1 deadline to take into account the most up to date information and reported to this committee in both the TBM Month 9 and Revenue Budget reports.

Business Rates estimate for 2017/18

3.9 The revaluation has increased the level of business rates payable from 1 April 2017. As a consequence, the council will move from receiving a top up grant of £1.676m in 2016/17 to paying a tariff of £1.500m in 2017/18 as a result of the distributional changes referred to in paragraph 3.2. The basis for the tariff calculation is the September version of the 2017 list however this will continue to be updated up to 1 April 2017. CLG has confirmed that any adjustment required as a result of changes to the list between September 2016 and 1 April 2017 will be factored into the 2018/19 settlement. This introduces uncertainty over projections for business rates income. In addition, tariff authorities pay a levy on business rates growth above a baseline set by government. For Brighton & Hove City Council, this levy will be 3% of the council's 49% share of any growth above the government baseline.

3.10 The most significant factor behind the volatility of business rate income is the level of successful appeals. Other elements taken into account are additions and deletions to the rating list, and changes to mandatory and discretionary reliefs.

Gross rates payable

3.11 Based on the 2017 rating list, the gross amount payable for 2017/18 is estimated at £145.996m. This reflects an estimate of changes that are anticipated as a result of new and deleted properties, and other changes to RV from December 2016 to March 2018 that have yet to be added to the list. Growth in 2017/18 is estimated at 0.5%.

Transitional Arrangements

3.12 As a new rating list causes significant changes for some ratepayers, the government has set up a transitional scheme to limit the increases and decreases for individual properties as a result of revaluation. NNDR1 forecasts that ratepayers will receive transitional relief of £8.946m and pay a transitional surcharge of £1.699m in 2017/18. The net cost of these transitional arrangements (£7.247m) is funded entirely by government.

Small Business Rates Relief (SBRR)

3.13 The government announced in the March 2016 budget that the temporary doubling of SBRR from 50% to 100% would be made permanent from 1 April 2017. The thresholds for the level of SBRR have been increased as well as the threshold at which properties pay the non domestic multiplier. This means properties with an RV of £12,000 or below that meet the eligibility criteria will receive 100% relief and those with an RV between £12,001 and £14,999 will receive tapered relief. The threshold for paying the small business rates multiplier has been increased from £18,000 to £51,000.

3.14 The government also confirmed that authorities will be compensated for the permanent doubling of SBRR to 100%, and the increased cost of reliefs from SBRR threshold changes through a section 31 compensation grant. The NNDR1 form only shows the section 31 grant funding for the doubling of the SBRR relief. Government is yet to decide the best way of managing compensation arising from threshold changes. The council has nevertheless made its own estimate of £1.309m for the latter compensation category.

Discretionary Rate Relief

3.15 The December budget update report to this committee included a savings proposal of £0.034m on the council's 49% share of discretionary rate relief. This is predicated on tightening the qualifying criteria for charities and not-for-profit organisations and has been incorporated into the NNDR1 figures, reducing the overall cost of discretionary rate relief from £0.138m in 2016/17 to £0.070m in 2017/18.

3.16 A further temporary relief has been announced by government which introduces a £1,500 business rates discount for office space occupied by local newspapers, up to a maximum of one discount per local newspaper title and per property, and up to state aid limits, for 2 years from 1 April 2017. No allowance has been made in the NNDR1 at this time as the government will fund this relief if claimed.

Appeals

3.17 The new 2017 rating list can be appealed against from 1st April 2017 and therefore the council needs to make a judgement on the consequent reduction to business rates income. The estimate is based on national assumptions adjusted to reflect a higher than average increase in rates in Brighton & Hove, as it is anticipated that this will lead to a higher level of successful appeals. The methodology for the appeals provision will be amended in future years, depending on the level of appeals lodged.

3.18 The process is administered by the VOA and appeals can often take several years to resolve as demonstrated by 5 appeals still outstanding against the 2005 list and 811appeals against the 2010 list. A new appeals process ('Check, Challenge, Appeal') is being introduced from 1 April 2017. This is intended to streamline the process, make resolution of appeals quicker, and reduce speculative appeals. If successful, uncertainty arising from appeals will reduce.

3.19 The government has announced its intention to fund the impact of appeals on a national basis in the draft Local Government Finance Bill which, if implemented will reduce the uncertainty for local authorities. However at this stage there are no details of the timescale or how this change would be implemented. The NNDR1 form for 2017/18 confirms the requirement that councils continue to include an appeals provision against the rating list.

Overall business rates forecast for 2017/18

3.20 The amount previously assumed in the budget for business rates in 2017/18 was £58.168m. A table summarising the components of the business rates retention income for the council is given below with references from the NNDR1 in brackets:

Brighton & Hove City Council share of business rates	**£ million**
Brighton & Hove City Council 49% of non-domestic rating income (Part 1B line 14)	55.637
Section 31 compensation grants from government (Part 1C line 35 on NNDR1 form)	3.860
Section 31 compensation grant estimated for SBRR threshold changes	1.309
Tariff Payment (includes section 31 impact from the 2015/16 multiplier cap)	-1.522
Levy payment	-0.122
Total of business rates income retained by the council	**59.162**

3.21 The additional business rates retained by the council for 2017/18 are estimated to be £0.994m higher than previously forecast. A proportion of this increase is driven by a higher level of inflation being applied to business rates. The inflation estimate made in July for the September RPI increase was 1.2%; the actual rate was 2.0% and this change accounts for approximately £0.470m of the increase and can be assumed to increase resources on a recurrent basis. The remaining £0.524m should be assumed to be a one-off gain to allow for the further adjustments to be made for revaluation and reduced transitional relief where ratepayers would have otherwise been entitled to other business rates reliefs.

Future changes to the business rates retention scheme

3.22 An initial consultation on the proposed 100% Business Rates Retention scheme was undertaken in the summer and the council responded in September 2016. The council also led a process by which the SE7[1] group of councils wrote jointly to CLG outlining a number of specific shared concerns. There have been no further announcements on the next stage of consultation.

3.23 The government will provide a new 100% business rates relief for new full-fibre infrastructure for a 5 year period from 1 April 2017 to support the roll-out of broadband and 5G capability to homes and businesses. In order to introduce this, changes to primary legislation are required. CLG anticipate the relief will be backdated to 1 April 2017.

3.24 The government also intends to introduce legislation to enable local authorities to use their existing discretionary relief powers to support publicly owned public toilets from 1 April 2018.

The [1] South East 7 Group consists of BHCC, East Sussex, Surrey, West Sussex, Hampshire and Kent County Councils, and Medway Unitary Authority.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

4.1 The calculation of local authority level data and the completion of the NNDR1 form is prescribed by government in the completion guidance notes issued by CLG.

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, to set out a forecast surplus or deficit for 2016/17, and to submit an NNDR1 form by the 31 January 2017. This report outlines the considerations underpinning these actions.

7. FINANCIAL & OTHER IMPLICATIONS:

<u>Financial Implications:</u>

7.1 The forecast business rates income, including section 31 business rates grants, is £0.994m above the forecast used in the December 2016 budget update report. £0.470m can be reflected as recurrent income and the remaining £0.524m should be treated as a one-off resource in 2017/18. 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 2017/18.

Finance Officer Consulted: James Hengeveld *Date: 16/01/17*

<u>Legal Implications:</u>

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 2017, these amounts must be determined by 31 January 2017.

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

Lawyer Consulted: Elizabeth Culbert *Date: 16/01/17*

<u>Equalities Implications:</u>

7.4 None specific to this report.

<u>Sustainability Implications:</u>

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 hard to predict so therefore needs close monitoring. The Business Rates Retention 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 to the authority are lower. However, the council may wish to consider the merits of pooling in future years.

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:

1. Draft National Non-Domestic Rates Return - NNDR1 2017/18

2. Rateable Value monitoring

Documents in Members' Rooms:

None.

Background Documents:

1. Files held with Finance and Revenues.