POLICY & RESOURCES COMMITTEE	Agenda Item 118 Brighton & Hove City Council

Subject:		**Business Rates Retention Forecast 2015/16**	
Date of Meeting:		**22 January 2015**	
Report of:		**Interim Executive Director of Finance & Resources**	
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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 Department for Communities and Local Government ('CLG') issued the NNDR1 2015/16 form on 19 December 2014, which reports the estimated business rates expected to be collected by the council next year, and this report sets out the basis upon which the form has been completed. This report seeks approval of the NNDR1 form so it can be submitted to CLG and the Fire Authority by 31 January 2015 as required.

2. RECOMMENDATIONS:

That Policy & Resources Committee:

2.1 Note the amount forecast to be received by the council in 2015/16 from its share of local business rates and section 31 (Local Government Act 2003) compensation grants is £56.560m, based on the latest data. This is £0.222m above the forecast used in the December 2014 budget update report.

2.2 Agree the NNDR1 2015/16 form at Appendix 1.

2.3 Agree to the incremental reduction of expenditure on Discretionary Rate Relief (charities and not-for-profit organisations) outlined in paragraph 3.20 and included in the savings proposals presented to P&R Committee in December 2014.

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). The RV for Brighton & Hove at 31 December 2014 is £265.3m, and chart 1 in appendix 2 shows how the RV has changed over the last 3 years. Members can see there is no pattern year to year demonstrating the difficulty in forecasting this. Previously rating valuations were updated every 5 years, however 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).

3.2 The appeals process is administered by the VOA and appeals can often take several years to resolve. The Government has committed to clear 95% of all currently outstanding appeals by July 2015. Currently about 11% or £30m of the total RV of the city is under appeal. In the autumn statement it was announced that the rules would be changed on backdating appeals, which means that alterations to RV can only be backdated to the period 1 April 2010 to 31 March 2015 for ratepayer appeals made before 1 April 2015 and VOA alterations made before 1 April 2016.

3.3 To calculate the bill for each property on the rating list, a multiplier is applied to the RV. There are two multipliers both set nationally, the small business non-domestic multiplier which is used for properties with a RV below £18,000, and the non-domestic multiplier due on properties above this level which includes the supplement to pay for the small business rate relief scheme. The small business non-domestic multiplier is normally index linked to the Retail Price Index (RPI) and the non-domestic multiplier (standard) is set by government. In the Autumn Statement 2014 the Chancellor announced that the increase for the small business non-domestic multiplier will be capped for 2015/16 at 2% rather than the September 2014 RPI of 2.3%. The provisional small business rate multiplier for 2015/16 is 48.0p in the pound and the provisional standard multiplier is 49.3p in the pound.

3.4 The changes to the business rates system announced at the Autumn Statements in 2012, 2013 and 2014 that affect the income of local authorities in 2015/16 are as follows:

- The doubling of the Small Business Rate Relief (SBRR) has been extended for a further 12 months until 31 March 2016;
- Ratepayers receiving SBRR that take on an additional property which would currently disqualify them from receiving relief, will continue to receive their existing relief for 12 months;
- Empty new build properties will be exempt from empty property rates for 18 months;
- A discount of £1,500 will be given to shops, pubs and restaurants with a rateable value below £50,000 in 2015/16;
- A 50% business rates relief for 18 months – at any time between 1 April 2014 and 31 March 2016 – for businesses which move into retail premises that have been empty for a year or more;

- Discretionary relief to be given to ratepayers with a RV of £50,000, or less, in lieu of transitional relief for 2015/16 and 2016/17.

3.5 The Government has said that Local Authorities will continue to be refunded for the loss in receipts as a result of these measures, and will receive the refund in the form of section 31 compensation grants.

3.6 Certain categories of occupation are entitled to relief against their annual rates bill for example charities receive mandatory relief of 80%. Local authorities may also provide relief on a discretionary basis for particular types of occupier.

3.7 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% is paid to Government.

Business Rates Monitoring in 2014/15

3.8 There was a brought forward surplus of £11.347m on 1 April 2014 of which £4.029m had been forecast and distributed within the current financial year. The councils' share of this was £1.974m and was used to repay in part the safety net grant which the council no longer qualified to receive. The business rates income for the current year transaction is forecast to breakeven, which leaves the undistributed surplus of £7.318m brought forward as the forecast surplus at 31 March 2015. The council's share of this is £3.586m of which £1.996m is needed to repay the remaining amount of safety net grant to government. This leaves a forecast one-off resource of £1.590m for 2015/16 from the business rates forecast surplus and this amount has already been included within budget projections for 2015/16.

3.9 Whilst the current year transactions are forecast to breakeven overall there is some movement within the figures as follows:

- The level of mandatory charity relief awarded is £0.317m higher than anticipated in the NNDR1 2014/15;
- A technical adjustment to previously deferred business rates payments has resulted in an additional £0.375m in 2014/15 only;
- Overall growth in the business rates tax base has moved broadly in line with the projections;
- Overall the impact of appeals is also in line with the projections. This is a highly volatile area and following the announcement within the Autumn Statement to limit the backdating of appeals as detailed at paragraph 3.2, there may be an increased level of appeals raised in the final quarter of 2014/15.

3.10 The council has introduced a new business rates system during December 2014 which will provide improved management information that can be used to inform future TBM forecasts throughout 2015/16.

3.11 As business rates are highly volatile, the most significant factors in determining forecasts of future business rates income are the level of appeals and refunds. Other factors taken into account are additions and deletions to the rating list, and any significant changes to mandatory and discretionary reliefs. These areas will be outlined over the next section of this report.

Appeals and refunds

3.12 Successful rating appeals not only reduce the ongoing RV of properties but also result in refunds; in most cases these go back to 1 April 2010 as the date of the last revaluation, and in some cases to 1 April 2005. In 2014/15 the majority of cases of successful appeals result in business rates refunds for 2010/11, 2011/12, 2012/13 and 2013/14.

3.13 The VOA sent data to the council on outstanding appeals to the end of September 2014 and another data set is expected shortly for the end of December 2014. The table below summarises the September data plus the data from the previous year. It shows that the RV under appeal has declined by approximately 44% since the previous year.

Information received from the VOA at end of September 2013			
	Number of outstanding appeals	RV of properties under appeal	% of total RV
2005 List	20	£2.2m	0.8%
2010 List	550	£54.4m	20.9%
Total	570	£56.6m	
Information received from the VOA at end of September 2014			
	Number of outstanding appeals	RV of properties under appeal	% of total RV
2005 List	6	£0.6m	0.2%
2010 List	268	£30.3m	15.5%
Total	274	£30.9m	

3.14 Charts 2 and 3 in appendix 2 show a breakdown of appeals by categories of business and by type of appeal. Chart 3 shows that 44% of appeals are against the compiled list and therefore if they are successful would result in a refund backdated to 2010.

3.15 The impact of successful appeals is forecast to stay within the projections made for both the ongoing reduction in RV and utilisation of the provision for backdated elements of appeals relating to 2014/15 and earlier years. As a result of the cut off point for backdated appeals being those lodged by 31 March 2015 the provision calculated at the year end will be based on known appeals. Although this will provide some additional certainty the VOA still has the ability to make alterations with backdated changes until 31 March 2016.

Additions and deletions to the rating list

3.16 The business rates maximisation project initiated in 2014/15 has brought together information from Planning, Economic Development, Major Projects and Revenues to assess current development within the city and what is planned for the future. This has helped improve forecasting and will continue to support business rates projections.

3.17 There are some specific and significant developments which have either been completed but are still not on the rating list, or are expected to be completed during the year. These include the completed restaurant developments within Brighton Marina and the new Top Shop store in Churchill Square. In addition there are developments underway in London Road the former Co op site, and the Metro Bank near Churchill Square. These have been factored into projections.

Changes to mandatory and discretionary reliefs

3.18 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 approximately £1.9m in 2014/15 which will reduce if any of the schools transfer.

3.19 If a property is used by a charity wholly or mainly for charitable purposes, it already qualifies for an 80% reduction of Business Rates. Our discretionary policy determines whether or not the Local Authority gives an extra amount of discount on top. The Local Authority can award up to 20% to make a full 100% discount. Not-for-profit organisations do not get an automatic 80% reduction, but the Local Authority can choose to award up to 100% discount, again on discretion on a case by case basis.

3.20 In 2014/15 we are forecasting that the awards of Discretionary Rate Reliefs for charities and not-for-profit organisations will total £0.135m, of which the council's share would be £0.067m. A saving was put forward as part of the budget proposals to halve the expenditure on Discretionary Rate Relief. The full saving cannot be achieved in the first year as we have already committed to some awards for 2015/16. Therefore a part year saving of £0.016m is proposed for the 2015/16 year, with a full year effect saving being £0.033m. The saving for 2015/16 will be achieved by application of the existing policy, with a lower level of award available. We are currently reviewing the policy with the intention of implementing revised criteria during 2015/16 so the remaining savings can be made in 2016/17. Whilst the review is at an early stage, it is anticipated that the overall cost of the relief will be reduced by tightening the qualifying criteria, for example by looking more closely at the surplus incomes of the organisations that apply.

3.21 The local Empty Property Reoccupation Discount (EPRD) was set up to run from 1 October 2013 to 31 March 2015 by the council. This is a locally defined rate relief, where ratepayers with a RV of up to £0.025m were given a 6 month discount of 100% if they reoccupied a long term empty property (empty for at least six months). Those with a RV of £0.025m to £0.035m benefited from a 50% discount if they reoccupied. The scheme was helpful to individual ratepayers, but there is no information to suggest it impacted on the overall numbers of empty properties. Since the introduction of the EPRD the Government has introduced further reliefs to incentivise reoccupation of long term empty business premises that are more generous than the local scheme, therefore there are no proposals to continue this discount.

Reviewing the Compiled Rating List

3.22 A six month project reviewed how income from business rates could be maximised. As a result of this work:

- Between April and December 2014, an additional £0.690m of RV has been added to the compiled rating list;
- The majority of this additional RV is the product of a comprehensive city wide mapping exercise completed by the Business Rates Inspectors who visited the main commercial areas within Brighton & Hove;
- Existing policies and procedures have been enhanced to ensure businesses are billed in an accurate and timely manner; this includes reviewing our communication methods;
- Additional focus has been placed on all zero rated properties;
- Businesses with charitable status have been checked for eligibility;
- A property monitoring spreadsheet has been created and is updated on a daily basis to review development in the city;
- Data matching is taking place between services;
- Further service improvements are ongoing.

3.23 Whilst some of these measures have had an immediate impact on the net business rates income to the city, they will also have an ongoing benefit that improves business rates income and estimates in future years.

Overall business rates forecast for 2015/16

3.24 The supplement for funding the small business rate relief scheme that is used to set the provisional standard multiplier has been increased by government from 1.1p to 1.3p in the pound for 2015/16. This additional 0.2p in the pound is forecast to generate an additional £0.450m of which the council's share is £0.220m.

3.25 A table summarising the changes since 2014/15 relating to the council is shown below. These figures include anticipated section 31 government grants to compensate for the cap on the annual rates increase of 2%, small business rate relief and other changes announced in the Autumn Statements.

Brighton & Hove City Council share of business rates	**£ million**
Business rates forecast for 2014/15	54.765
Inflation at 2.3% (compensated by section 31 grant for 0.3%)	+1.260
Additional 0.2p in the pound uplift in the provisional standard multiplier	+0.220
Increase to reflect projected growth in net business rates income over the coming year	+0.299
Changes to award of discretionary business rates relief	+0.016
Business rates income forecast for 2015/16	**56.560**
Which breaks down between income and grant as follows:	
Business rates income from ratepayers (Part 1B line 14 on NNDR1 form)	52.396
Section 31 compensation grants from government (Part 1C line 30 on NNDR1 form)	4.164

3.26 The statutory NNDR1 return with the overall figures has been completed and is attached at appendix 1.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

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

5. COMMUNITY ENGAGEMENT & CONSULTATION

5.1 The council has a duty to consult business ratepayers on the councils overall budget and this consultation event is planned to take place on the 21 January 2015.

6. CONCLUSION

6.1 The council has a statutory duty to agree a business rates forecast, set out a forecast surplus or deficit for 2014/15 and submit an NNDR1 form by the 31 January 2015.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

7.1 The forecast business rates income, including section 31 business rates grants, is £0.222m above the forecast used in the December budget update report and achieves the £0.016m saving for discretionary rate relief.

7.2 The council's share of the surplus at 31 March 2015 is included within the budget forecast for 2015/16.

Finance Officer Consulted: James Hengeveld *Date: 09/01/15*

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 2015, these amounts must be determined by 31 January 2015.

7.4 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: Oliver Dixon *Date: 09/01/15*

Equalities Implications:

7.6 None specific to this report.

Sustainability Implications:

7.7 The changes to business rates set out in the Autumn Statement should have a beneficial impact on the economic health of the city.

Any Other Significant Implications:

Risk and Opportunity Management Implications:

7.8 Business rates income is volatile and hard to predict so therefore needs close monitoring as set out in paragraph 3.1. 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 any one employer or any particular type of business so the risks here are lower. However, the council may wish to consider merits of pooling in future years.

Corporate / Citywide Implications:

7.9 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. National Non-Domestic Rates Return - NNDR1 2015/16

2. Business rates monitoring 2012/13, 2013/14 and 2014/15

Documents in Members' Rooms

None.

Background Documents

1. Files held with Finance and Revenues.