

## **BARNSLEY METROPOLITAN BOROUGH COUNCIL**

**Cabinet: 11<sup>th</sup> January 2017**

**Report of the Director of Finance Assets & IT**

### **2017/18 BUSINESS RATES – CALCULATION OF THE AUTHORITY'S LOCAL SHARE**

#### **1. Purpose of Report.**

- 1.1 This report sets out the 2017/18 estimated Business Rate Local Share for the Council that is built into the 2017/18 budget process and outlines the process for calculating the National Non Domestic Rates Return (NNDR1) which is required to be submitted to the Department for Communities and Local Government (DCLG) by 31<sup>st</sup> January 2017.

#### **2. Recommendations.**

- 2.1 That Members note the process for estimating the retained Business Rate Local Share for 2017/18 set out in the report and agree that the 'local share' for Barnsley will be £22.032M (excluding S31 Grants) in line with the Council's Medium Term Financial Strategy (MTFS).
- 2.2 It is recommended that the final submission is approved by the Director of Finance, Assets and IT in consultation with the Cabinet Spokesperson.

#### **3. Background**

- 3.1 The Government's reform agenda introduced the local Business Rates Retention (BRR) scheme from 1<sup>st</sup> April 2013 which altered the way revenue from business rates is distributed. From this date, councils now collect and retain 49% of business rates (known as the Local Share) and this amount forms part of the funding of the Council's agreed 2017/18 budget.
- 3.2 In the 2015 Comprehensive Spending Review, Government announced the move to allow all Councils to retain 100% of business rates they collect by 2020/21. Whilst this can be seen as a positive statement, allowing Local Authorities more control over their finances and being less reliant on Central Government financing, it also raises a number of potential issues that the Council needs to be aware of and manage effectively.

#### **4. Current Position**

##### Local Business Rates Retention

- 4.1 Under the Business Rates Retention (BRR) scheme councils are required to estimate the total business rates to be collected in their area.

- 4.2 After taking account of reliefs, appeals and other variables, councils are required to pay 50% of this net amount over to Central Government and 1% to local Fire Authorities. The remaining amount is then available to contribute to the Council's budget planning process.
- 4.3 The key steps involved in the process of estimating the local share of business rates to be retained by the Council are attached at Appendix 1.
- 4.4 There are however a number of key changes for 2017 together with other significant issues that impact on the Authority's ability to generate additional business rate income. These issues are identified below:-

### **2017 Business Rate Revaluation**

- 4.5 A revaluation of all business properties is undertaken at national level by the Valuations Office every 5 years. The next business rates revaluation takes effect from 1<sup>st</sup> April 2017. At local authority level, overall bills will increase or fall depending upon whether rateable values in that area have performed above or below the average for England.
- 4.6 Government have announced that the effects of the revaluation will be revenue neutral meaning no Local Authority will be worse off in terms of funding retained. This will be undertaken via an adjustment to each authority's Top Up or Tariff following revaluation so that as far as is reasonably practical a Local Authorities retained income is the same after revaluation as immediately before.
- 4.7 As a result of the revaluation the gross rateable value of businesses within Barnsley have generally fallen on average by 1.75% meaning that income retained by the Council from business rates collected has reduced. As a result the top up grant the council currently receives will increase from the 1<sup>st</sup> April 2017. The Medium Term Financial Strategy has been adjusted to reflect this change.
- 4.8 It should be noted that there has been fluctuations in the rateable values (RV) of council owned premises as a result of the 2017 Revaluation. The estimated cost associated with this has been built into the Medium Term Financial Strategy.

### **Small Business Rates Relief**

- 4.9 The Government have also announced that the entitlement threshold for qualifying small businesses that can apply for Small Business Rate Relief will change from the 1<sup>st</sup> April 2017. The table below highlights the effects of the new threshold;

	<b>Existing Threshold</b>	<b>New Threshold</b>
100% Relief Awarded	Up to £6,000	Up to £12,000
Tapered Relief Awarded	From £6,001 to £11,999	From £12,001 to £14,999
Bills calculated on Small Business Rate Multiplier	From £12,000 to £18,000	From £15,000 to £51,000

- 4.10 Local Authorities will be compensated for the effects of the change in the threshold via a specific (Section 31) grant by Government; provision for this has already been included in the Council's MTFS.

### ***Deductions for Estimated Charitable Reliefs***

- 4.11 Charities are awarded 80% mandatory relief. This continues to be a significant issue for the Authority as schools that become academies will automatically receive relief on their business rate charge.
- 4.12 In Barnsley, 45 schools (including 4 secondary schools) are currently receiving charitable relief (academies and other charitable operated schools) with a further 6 schools (including 1 secondary) expected to convert during 2017/18. The effects of this have been built into the estimated cost of charitable relief for 2017/18.
- 4.13 In addition to this there are a number of ongoing legal challenges associated with the award of charitable relief in particular around NHS Trusts nationally. If these challenges are upheld the Council may face significant financial costs.

### ***Empty Properties and Business Closures***

- 4.14 Under the current Business Rates scheme, business properties that become vacant are entitled to apply for empty property relief. The amount of relief awarded is dependent on the type of property that becomes vacant. For industrial use properties a maximum of 6 months relief can be awarded with a maximum of 3 months relief being awarded to other property types. A business owner can however re-apply for relief 6 weeks after the previous relief has expired meaning that a business owner can effectively receive over 10 months relief in any financial year.
- 4.15 Whilst the total amount of relief to be awarded during 2017/18 is therefore difficult to estimate, the total rates to be collected has been adjusted to reflect known circumstances.
- 4.16 Finally, it is estimated that the total rates collected will reduce (albeit temporarily) as a result of the Better Barnsley town centre regeneration scheme, which is due to commence in the new financial year.

### ***Enterprise Zones***

- 4.17 As part of setting up Local Enterprise Partnership (LEP's) a framework was also established to offer incentives to businesses to build/ relocate within designated sites known as Enterprise Zones. EZ sites were placed within the control of LEP's and are split between those sites that offer business rate relief and those that offer Enhanced Capital Allowances (ECA) to properties within the EZ sites.
- 4.18 EZ sites have a direct impact on local authority funding because local authorities pay over to the LEP the business rates of properties that fall within these sites rather than retain the rates themselves. Under the BRR scheme, the business rates paid over to LEP's are funded jointly by local authorities and central government.
- 4.19 Barnsley has 2 approved enterprise zone sites at Shortwood and Ashroyd Business Parks. A further 2 potential sites have also been identified at Capitol Park (M1 Junction 37) and Gladman Park (M1 Junction 36) as a result of the Government offering up these sites to those LEP's affected by the HS2 high speed rail link. This however is subject to change following the Government's recent HS2 announcement.

- 4.20 The impact of the business rate relief at the Shortwood and Ashroyd sites is estimated at around £400k and the Council picks up 49% of this cost. It is not possible at this point to determine the full financial implications of the ECA sites as this will depend upon the type of businesses that are built/ relocated here but this will be monitored and reported into a future Cabinet.

### ***Appeals***

- 4.21 Appeals occur when a business believes that the business rates they have been charged have been calculated unfairly. All appeals are processed by the Valuations Office. Appeals usually take place over a 5 year period in line with the Valuations Office property revaluation timetable.
- 4.22 Government have recently consulted on a new appeals process to be implemented from 1<sup>st</sup> April 2017. The new appeals process will follow a three stage process – Check, Challenge and Appeal.
- 4.23 Councils are required to make an estimate of the appeals that may be settled within any given year. It is expected that the new process will make it easier for the Council to more accurately estimate the financial impact that appeals may have on the Medium Term Financial plan, something which has been virtually impossible to model at present.

### **Submission of the National Non Domestic Rates Return (NNDR1)**

- 4.24 Councils are required to collect the information highlighted at Appendix 1 and submit it to Government via the NNDR1 return no later than 31<sup>st</sup> January in any given year.
- 4.25 The NNDR 1 form has yet to be issued by Government at the time of writing this report. Once received this will be reviewed by officers over the next few weeks and may necessitate adjustments to the position reported in this report. Bearing in mind the deadline for submitting the NNDR 1 form is 31 January 2017, it is recommended that the final submission is approved by the Director of Finance, Assets and IT.
- 4.26 The position on business rates will also continue to be carefully monitored throughout the financial year and reported to Members as part of normal budgetary procedures.

### **Reconciliation to the Council's MTFS**

- 4.27 As mentioned the Council's NNDR 1 2017/18 reconciles to the Council's updated forecast. However, the 2017/18 position has changed since it was last reported to Cabinet/ Council in September 2016. The 2017/18 forecast at that stage was before the impact of the 2017 revaluation had been calculated. This revised position impacts both Top Up grant and Local Share income which is now reflected in the Council's updated forecast as set out in the table below.

	<b>Sept Cabinet £M</b>	<b>Latest Position £M</b>	<b>Difference £M</b>
Local Share	25.440	22.032	-3.408
S31 Grants Local Share	1.610	1.855	+0.245
Top Up grant	27.179	30.342	+3.163
S31 Top up	0.384	0.384	0
	<b>54.613</b>	<b>54.613</b>	<b>0.000</b>

- 4.28 It should be noted that there are a number of other potential variances that could impact upon the Council's NNDR forecast. The main variable is the Council's ability to affect the number of businesses in the borough and some of the factors impacting this have already been outlined earlier in this report. At this stage, the impact of these changes on the Council's NNDR base is largely believed to be neutral but the position will be closely monitored to ensure that any potential changes are reported into Cabinet at the earliest opportunity.

## **5. Options**

- 5.1 The Council is statutorily required to submit a completed NNDR1 form no later than 31<sup>st</sup> January in any given year.

## **6. Local Area Implications**

- 6.1 The impact on local businesses (especially in relation to Government policy changes) is outlined within the report.

## **7. Implications for local people and service users**

- 7.1 No local people or services will be directly affected by the new scheme.

## **8. Financial Implications**

- 8.1 From the introduction of the BRR scheme on 1<sup>st</sup> April 2013 the Council retained 49% of the amount it collects. Following the 2017 Business Rate Revelation, an estimate of the amount to be retained in 2017/18 has been made and totals £22.032M. This amount has been built in to the 2017/18 Budgetary Process. In addition, the Council is required to notify Central Government and South Yorkshire Fire Authority of their share of business rates income.
- 8.2 The business rate baseline remains extremely volatile with a number of key factors that can influence its position none more so than the ongoing legal challenges currently being progressed. The move to 100% retention by 2020 places even more importance on the monitoring of the budgeted position. A rigorous monitoring process has been put in place with any material variations against the budgeted retained element of business rates or the Section 31 Grant being reported to Cabinet as part of the normal quarterly financial monitoring process.
- 8.3 Any variations identified from this exercise will affect the Council's Collection Fund Reserves, which will in turn impact on future years budget strategies. Any variations also impact the amounts paid over to Central Government and the Fire Authority.

**9. Employee Implications**

9.1 No existing employees are adversely affected by this report.

**10. Communications Implications**

10.1 None directly arising from this report.

**11. Tackling Health Equalities**

11.1 There are no known implications.

**12. Climate Change & Sustainable Energy Act 2006**

12.1 Councils are able to retain 100% of business rates levied on new renewable energy businesses from 1<sup>st</sup> April 2013. The Council has seen one such renewable energy business that has come onto the rating list since this time and as such has included 100% of the rates collected on this property in the amount to be retained for 2016/17 (see step 5 in Appendix 1).

**13. Risk Management considerations**

13.1 As the business rates retention scheme forms a major part of the Council's future funding position any forecast decline may pose a significant risk. As such this has been added to the Authority's risk register.

**14. Health & Safety Issues**

14.1 There are no implications.

**15. Compatibility with European Convention on Human Rights**

15.1 There are no implications.

**16. Promoting Equality and Diversity and Social Inclusion**

16.1 There are no implications

**17. Reduction of Crime and Disorder**

17.1 There are no implications.

**18. Consideration of Biodiversity**

18.1 There are no implications.

**19. List of Appendices**

Appendix 1- Process for calculating the National Non Domestic Rates Return

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**Date: 16/12/2016**

## **PROCESS FOR CALCULATING THE 2017/18 NNDR 1 FORM**

### **Step 1 – Calculation of Gross Debit**

The gross debit is calculated by taking the gross rateable value of properties on the ratings list within the Barnsley area and applying a business rate multiplier as set by Government.

The rateable value to be used is that based on the revised 2017 Revaluation as at 1<sup>st</sup> April 2017.

### **Step 2 – Deductions for Estimated Reliefs Awarded**

Certain types of organisation (certain small businesses, charities, empty properties) are entitled to business rates relief. These include charitable trusts and other similar organisations including academies.

Any estimated reliefs to be awarded in the forthcoming year are deducted from the gross debit and thus affect the amount to be retained by the Council.

### **Step 3 - Losses in collection**

As part of the estimate of business rates revenue to be collected locally, councils are required to make an estimate of any losses in collection it anticipates in any given year.

A prudent estimate based on the current collection rate being achieved together with past years actual losses, has been made. This has been built into the overall calculation of business rates to be collected and equates to a collection rate in the region of 96.5%. There has been considerable investment in both time and resources in collection/ recovery processes over the last 18 months and the new methods adopted by the Council (including charging orders, a new enforcement framework and bankruptcy and petitions) should help us to achieve the target for 2017/18.

### **Step 4 – Enterprise Zones**

Under the new scheme councils are required to pay 100% of the business rates collected on properties that sit within enterprise zones over to the Local Enterprise Partnership.

There are currently 4 properties within Barnsley that sit within the Sheffield City Region Enterprise Zone. The business rates to be collected on these properties will be deducted from the estimated business rates for 2017/18 to be paid to the LEP.

### **Step 5 - Renewable Energy Schemes**

From 1<sup>st</sup> April 2013 the Council will be able to retain 100% of the business rates levied on companies engaged on new Renewable Energy business. To date only one property of this type has come on to the rating list since this time.

## Step 6 - Business Growth/Decline

As part of the new scheme councils are also required to make an estimate for any growth or decline in businesses within their area. Council's will retain 49% of the business rates revenue estimated from any growth anticipated.

Based on local intelligence, an analysis has been made of any future growth within the Barnsley area. At this time there is no anticipated net growth within the area that would make a significant impact on the overall amount collected in business rates. It is therefore proposed not to include anything for net business rate growth in the final submission to Government.

Councils will however also have to take 49% of the loss in revenues from companies that go out of business. Although the current economic climate shows signs of improvement it is difficult to predict with any degree of certainty. There is expected to be a temporary decline in the business rate baseline as a result of the ongoing development within the Town Centre. This decline has been built into the 2017/18 NNDR1

## Step 7 - Appeals

Appeals occur when a business believes that the business rates they have been charged have been calculated unfairly. All appeals are processed by the Valuations Office. Appeals usually take place over a 5 year period in line with the Valuations Office property revaluation timetable.

Councils are required to make an estimate of the appeals that may be settled within any given year. Government are due to introduce a new appeals process form 1<sup>st</sup> April 2017 which should simplify the way the estimated provision is calculated for appeals.

## Step 8 Transitional Protection Payments

Government undertakes a ratings revaluation of business premises every 5 years. The next revaluation has been undertaken and takes effect from 1<sup>st</sup> April 2017. Where a properties ratings value has significantly changed as a result of revaluation the business in question is awarded Transitional Rate Relief to protect them from significant changes.

Transitional rate relief awarded is therefore deducted from the total amount of business rates levied.