

BARNSELY METROPOLITAN BOROUGH COUNCIL

Cabinet: 10th January 2018

Report of the Executive Director of Core Services

2018/19 BUSINESS RATES – CALCULATION OF THE AUTHORITY'S LOCAL SHARE

1. Purpose of Report.

- 1.1 This report sets out the 2018/19 estimated Business Rate Local Share for the Council that is built into the 2018/19 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 31st January 2018.

2. Recommendations.

- 2.1 **That Members note the process for estimating the retained Business Rate Local Share for 2018/19 set out in the report and agree that the 'local share' for Barnsley will be £22.314M (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 Service Director (S151) Finance in consultation with the Cabinet Spokesperson for Core Services.**

3. Background

- 3.1 The Government's reform agenda introduced the local Business Rates Retention (BRR) scheme from 1st 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 2018/19 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. However, as a result of primary legislation on 100% retention not being included within the Queens Speech in the summer, the implementation date is expected to be delayed. Government have recently launched a prospectus inviting Local Authorities to pilot 100% business rate retention in 2018/19. The prospectus suggests interested Local Authorities should look to form pools with other authorities and apply jointly. However, it is not considered appropriate at this time for the Council to progress with an application for 100% retention pooling. Future reports will update Cabinet on this position.

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 although it is also worth highlighting a number of issues that need to be considered when calculating the Business Rate base for 2018.

Small Business Rates Relief

- 4.4 From 1st April 2017 Government announced changes to the entitlement threshold for qualifying small businesses. The table below highlights the current threshold;

	Current Threshold (Gross RV)
100% Relief Awarded	Up to £12,000
Tapered Relief Awarded	From £12,001 to £14,999
Bills calculated on Small Business Rate Multiplier	From £15,000 to £51,000

- 4.5 Following these changes the Council has seen a significant increase in the Small Business Rate Relief awarded during 2017/18 and it is expected that this trend will continue. This results in a reduction in the amount of rates retained by the Council (the Local Share). Government did announce, during the 2017/18 Settlement consultation, that Local Authorities would be compensated for the effects of the change in the threshold via a specific (Section 31) grant. This compensation is expected to continue into 2018/19 and therefore provision has been included in the Council's MTFS.

Deductions for Estimated Charitable Reliefs

- 4.6 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.
- 4.7 In Barnsley, 56 schools (including 6 secondary schools) are currently receiving charitable relief (academies and other charitable operated schools) with a further 3 schools (including 2 secondary) expected to convert during 2018/19. The effects of this have been built into the estimated cost of charitable relief for 2018/19.
- 4.8 In addition to this there are a number of ongoing national legal challenges associated with the award of charitable relief in particular around NHS Trusts. If these challenges are upheld the Council may face significant financial costs.

Empty Properties and Business Closures

- 4.9 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. However, a business owner can re-apply for relief 6 weeks after the previous relief has expired meaning that a business can effectively receive over 10 months relief in any financial year.
- 4.10 Whilst the total amount of relief to be awarded during 2018/19 is difficult to predict, the total rates to be collected has been adjusted to reflect known circumstances. This includes the impact of the ongoing Town Centre regeneration scheme.
- 4.11 Finally, in 2017/18 Government introduced a relief for new properties that remain empty for upto 2 years. Government have compensated Local Authorities through S31 grant for this change which is expected to continue in 2018/19.

Enterprise Zones

- 4.12 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.
- 4.13 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.
- 4.14 Barnsley has 2 approved enterprise zone sites at Shortwood and Ashroyd Business Parks.
- 4.15 The impact of the business rate relief at the Shortwood and Ashroyd sites is estimated at around £560k and the Council picks up 49% of this cost. The impact of this has been built into the 18/19 income forecast.

Appeals

- 4.16 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.
- 4.17 Government introduced a new process for appeals from 1st April 2017. The new process follows a three stage process – Check, Challenge and Appeal.
- 4.18 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 previously.

Submission of the National Non Domestic Rates Return (NNDR1)

- 4.19 Councils are required to collect the information highlighted at Appendix 1 and submit it to Government via the NNDR1 return by no later than 31st January in any given year.
- 4.20 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 2018, it is recommended that the final submission is approved by the Service Director (S151) Finance.
- 4.21 The position on business rates will 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

- 4.22 As mentioned the Council's NNDR 1 for 2018/19 reconciles to the updated forecast. There are also changes to the amount of Top Up grant and Section 31 Grant to be received as a result of higher than expected inflation. The estimated amounts to be received are detailed in the table below and have been reflected within the Council's updated MTFS.

	Feb 2017 £M	Latest Position £M	Difference £M
Local Share	22.532	22.314	(0.218)
S31 Grants Local Share	1.855	3.035	1.180 *
Top Up grant	31.144	31.640	0.496
S31 Top up	0.384	0.552	0.168
	55.915	57.541	1.626

*S31 Grant Local Share is estimated and subject to confirmation upon completion of NNDR1

- 4.23 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 31st 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 1st April 2013 the Council retained 49% of the amount it collects. Following the 2017 Business Rate Revaluation, an estimate of the amount to be retained in 2018/19 has been made and totals £22.314M. This amount has been built in to the 2018/19 Budgetary Process. In addition, the Council is required to notify Central Government and South Yorkshire Fire and Rescue Authority (SYFRA) 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 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 SYFRA.

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 1st 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 2018/19 (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

Officer Contact: N Copley Service Director and S151 Officer, Finance

Telephone No: 773237

Date: 21/12/2017

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 1st 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 1st 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 2018/19 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 have to introduced a new appeals process form 1st April 2017 which has simplified 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 took effect form 1st April 2017. Where a properties ratings value has significantly changed as a result of re-valuation 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.