

BARNSELEY METROPOLITAN BOROUGH COUNCIL

This matter is a Key Decision within the Council's definition and has been included in the relevant Forward Plan

Cabinet: 13th January 2021

**Report of the Executive Director of Core Services
/ S151 Officer**

2021/22 BUSINESS RATES – CALCULATION OF THE AUTHORITY'S LOCAL SHARE

1. Purpose of the Report

- 1.1 This report sets out the 2021/22 estimated Business Rate Local Share for the Council that is built into the 2021/22 budget and outlines the process for calculating the National Non Domestic Rates Return (NNDR1) to be submitted to the Ministry for Housing, Communities and Local Government (MHCLG) by 31st January 2021.

2. Recommendations.

- 2.1 That Members note the process for estimating the retained Business Rate Local Share for 2021/22 set out in the report and agree that the 'local share' for Barnsley will be £22.364M (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 Finance - S151 Officer 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 in which 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 2021/22 budget.
- 3.2 The Government announced a review of the current business rates system including an option to allow councils to retain 75% of the business rates they collect. This review has been delayed further due to Covid 19. It is currently anticipated that a consultation exercise will commence during the summer of 2021 with full implementation possibly by April 2022. Future reports will update 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 (49%) 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 which are retained by the Council are attached at Appendix 1, with a summary below highlighting a number of issues that need to be considered when calculating the Business Rate base for 2021/22.

Small Business Rates Relief

- 4.4 From 1st April 2017, the 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 amount of Small Business Rate Relief (SBRR) awarded has increased significantly 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).
- 4.6 Government have confirmed that S31 Grant will continue to be awarded to compensate Local Authorities for the changes made to the SBRR threshold in 2017. An estimate has been made for the S31 grants to be received and has been built into the MTFS accordingly.
- 4.7 It is worth noting that as a result of the Covid 19 pandemic, Government announced 100% relief for all business with an RV of less than £51,000 in the retail, leisure and hospitality sectors. Government also announced that Local Authorities will be compensated via S31 grants for this loss in income.
- 4.8 Whilst referenced in the Chancellor's Spending Review speech in late November 2020 any decision to extend this broader business rate relief into 21/22 has been deferred to next year.

Deductions for Estimated Charitable Reliefs

- 4.9 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 bill, thus reducing the resources available to fund other front line Council services.
- 4.10 In addition, the legal case of Derby Teaching Hospital Trust and 16 other NHS trusts V Derby City Council (and other Local Authorities, including Barnsley) was heard the week commencing 19 April 2020. This legal challenge is associated with the award of 80% mandatory relief to NHS Trusts. Mr Justice Morgan has now handed down the judgement that Derby Teaching Hospital Trust is not a charity for the purposes of section 43(6) of the Local Government Finance Act 1988, meaning that they are not entitled to 80% mandatory relief. Whilst positive from the Council's perspective the Trust made an application to the Court of Appeal and the case will be reconsidered in the Spring of 2021. Future reports will update on this position.

Empty Properties and Business Closures

- 4.11 Under the current Business Rates scheme, business properties that become vacant are

eligible 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 ratepayer can re-apply for relief after a period of 6 weeks occupation meaning that a business can effectively receive over 10 months relief in any financial year.

- 4.12 Whilst the total amount of relief to be awarded during 2021/22 is difficult to predict, particularly in the context of the current pandemic, the total rates to be collected has been adjusted to reflect known circumstances.

Enterprise Zones

- 4.13 All rates collectable from businesses within Enterprise zones are required to be paid over to the Local Enterprise Partnership (LEP) rather than being retained by the Local Authority.
- 4.14 There are currently 2 approved Enterprise Zones within the Barnsley area at Shortwood and Ashroyd Way. The estimated rates to be collected in 2021/22 from these sites total £0.9M. This amount will be required to be paid to the Sheffield City Region Combined Authority and therefore the impact of this has been built into the 2021/22 income forecast.

Covid 19 and Brexit

- 4.15 During 2020/21 the Covid 19 pandemic has had a significant impact on the business community, particularly those in the retail, leisure and hospitality sectors. Whilst some financial support has been provided by government the ongoing impact is difficult to predict but is expected to result in further business closures.
- 4.16 In addition, the transition period in relation to the UK's exit from the European Union ends on the 1st January 2021. It is uncertain at this stage what additional impact this, if any, will have on the number of businesses operating in Barnsley. Further reports will update on this position.
- 4.17 As a result of the above, an estimate of the potential reduction in the tax base / the amount of reduced business rate income to be collected has been factored into the 2021/22 budget.

Business Rate Arrears

- 4.18 Up until March 2020, the collection of business rates remained relatively positive in Barnsley and the Council has in place a robust income recovery policy which continues to be actively used where that is necessary. However, the outbreak of Covid 19 has impacted on collection rates during 2020/21, with forecast rates being up to 3% lower than originally anticipated. In order to provide some protection for non-collection moving forwards, an increased bad debt provision has been built into the amount of income expected to be collected and retained.

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 for 2021/22 is yet to be received but will be reviewed by Officers as necessary. As such it is possible that adjustments may be necessary to the position

reported in this report; particularly the split between retained rates (Local Share) and the amount of estimated S31 grant, to take into account any changes that may be announced as a result of the ongoing impact of Covid 19. Bearing in mind the deadline for submitting the NNDR 1 form is 31 January 2021, it is recommended that approval of the final submission is delegated to the Service Director Finance - S151 Officer.

- 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.

Future Changes to the Business Rates Retention Scheme

- 4.22 The current Business Rates Retention Scheme (BRRS) allows Local Authorities to retain 49% of all business rates collected locally.
- 4.23 Government have announced that they intend to make changes to the BRRS including a proposal to allow Local Authorities to retain 75% of all business rates collected. This has been delayed further as a result of Covid 19 but further details are expected to be announced during 2021. It is however expected that Government will adjust other funding (e.g. public health grant, revenue support grant etc) to ensure any change to retained rates at a local level is cost neutral and as such the Council is not expected to benefit financially from this proposal.
- 4.24 A further report will be submitted to Cabinet to update on the position in due course.

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 this report.

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 2021/22 has been made and totals £22.364M. This amount has been built into 2021/22 Budgetary Procedures. 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 several key factors that can influence its position being particularly vulnerable to the ongoing impact of Covid 19 and Brexit. The proposed move to 75% 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 budget 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 the Council's MTFS. These variations will 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 There are no known implications.

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.

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: 03rd December 2021

PROCESS FOR CALCULATING THE 2021/22 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.

Normally the business rate multiplier is increased by inflation (CPI) year on year, however as part of the Government's Comprehensive Spending review in November the Chancellor announced that there would be a freeze on the business rate multiplier for 2021/22 with local authorities being compensated via S31 for any losses.

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 rate 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.

Collection rates have been impacted by the COVID 19 pandemic and this is likely to continue well into 2021/22 and beyond. As a result, a prudent estimate based on the current collection rate being forecast during 2020/21 together with past years actual losses/write offs, has been made. This has been built into the overall calculation of business rates to be collected.

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 2021/22 to be paid to the LEP.

Step 5 - Renewable Energy Schemes

From 1st April 2013 the Council were able to retain 100% of the business rates levied on companies engaged on any new Renewable Energy business where the energy produced is above a certain threshold. To date only one eligible properties of this type has been brought onto the rating list since this time. (NOTE: a number of the renewable energy businesses were already on the rating list prior to 1st April 2013).

Step 6 - Business Growth/Decline

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

The business community has clearly been significantly affected by the outbreak of COVID 19 during 2020/21. It is expected that the fallout of this will continue long into 2021/22. In addition, the UK will leave the European Union from 1st January which is also likely to impact on certain businesses. As a result, consideration has been given to the potential decline in businesses from 2021/22 onwards.

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. The next revaluation is planned for 2021/22 however Government have announced that this will now take place a year later meaning the time period for appeals will be extended a further year.

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 from 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.

Any transitional rate relief that is awarded is therefore deducted from the total amount of business rates levied.

As mentioned, the next planned revaluation was due to take place in preparation for 20/21, however this has been delayed as a result of COVID 19 and as such transition protection payments will continue for a further year.