Gedling Borough Council

Report to Cabinet

Subject: **Business Rates Briefing**

Date: **12th October 2017**

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Wards Affected

All

Purpose

This report is to inform Cabinet of the recent changes to the business rates system in England and Wales, and to outline the future plans to maximise business rates income.

Key Decision

This is not a key decision.

Background

1.1 National Non-Domestic Rates, commonly known as business rates, is a national form of taxation levied on properties used for business purposes. This form of taxation has a national element in that it is levied centrally, and a local element in that it is collected locally.

1.2 In the past, this tax was collected locally and 100% was sent to the government for redistribution to local authorities via the Revenue Support Grant mechanism. This system ended on 31 March 2013.

Localism Act 2011

1.3 The Localism Act 2011 introduced changes effective from 1 April 2013 which allowed 50% of the business rates receipt to be retained locally and 50% to be pooled nationally. However, this was due to change by 2020 when 100% of business rates receipt was expected to be retained locally.

1.4 Of the 50% retained locally, Gedling Borough Council retains 40%, and distributes 9% to Nottinghamshire County Council and 1% to Nottinghamshire Fire Authority.

1.5 Gedling Borough Council expects to collect around £23m in the financial year 2017/18. Under the current arrangements, this means that approximately £11.5m will be sent to the government, £2.07m to Nottinghamshire County Council, £0.23m to Nottinghamshire Fire Authority and £9.2m will be retained by Gedling Borough Council.

1.6 The £9.2m retained by the Council is subject to a tariff which is payable to the Nottinghamshire business rates Pool. The tariff amount is approximately £5.5m and is designed to ensure fair distribution of resources and is used to support local authorities which would otherwise receive less than their baseline funding level in business rates income e.g. the upper tier councils such as counties.

Revaluation 2017

1.7 Every five years, the Valuation Office undertakes a revaluation of all rateable values in order to ensure the fair distribution of the tax burden. The latest such revaluation took effect from 1 April 2017.

1.8 The effect of the revaluation is that some rateable values increase, and some decrease. Those businesses that see a large increase in their rates bills following a revaluation are supported by a transitional relief scheme and those who see a large decrease in their rates bills are further taxed by a transitional surcharge.

Budget March 2017

1.9 The Chancellor of the Exchequer announced in his spring budget on 8 March 2017 that the Government will provide three new reliefs to certain business types to assist with the alterations to their bills.

1.10 The first is a relief from business rates to those ratepayers facing large increases as a result of the loss of ‘small business rates relief’ or ‘rural rates relief’ due to the revaluation. This relief will apply from 2017/18 until 2021/22. This relief is known as “supporting small businesses relief”.

1.11 The second is a relief from business rates to businesses facing the steepest increase as a result of the 2017 revaluation. This scheme is to be administered at the discretion of the Council up to certain funding limits. Any such relief would be granted from 2017/18 until 2020/21 on a scale steadily decreasing each year. This relief is known as “local discretionary relief”.

1.12 The last is a relief which does not seem to be a response to the revaluation, rather a relief to target a certain industry. The government has provided for a one off relief payment of up to £1,000 to pubs with a rateable value below a specific level in 2017/18. This relief is known as “pub relief”.

1.13 All of the schemes described above are to be fully funded by government. They have now been implemented and revised bills sent to affected businesses. The Council is expected to administer these reliefs under its existing powers to grant discretionary relief.

Queen's Speech June 2017

1.14 Through the Local Government Finance Bill, the previous government was seeking to legislate for the 100% retention of business rates by local authorities, beginning in the 2019/20 financial year. This was to form part of a radical strategy to phase out central government grant and make local authorities more financially self-reliant. However, since the General Election, there has been uncertainty over the future of local government finance reform under the new government. This was highlighted by the fact that there was no mention of a Local Government Finance Bill in the Queen's Speech on 21 June 2017.

Appeals

1.15 The amount of business rates that an organisation has to pay is broadly based on its rateable value. This is a figure calculated by the Valuation Office (VOA) which equates to the annual rent the organisation's property could realise on the open market. Using a multiplier set by the government, the rateable value is used to calculate the rates payable.

1.16 This rateable value can be appealed by the ratepayer and the result of any such appeal may mean an increase or decrease to the rateable value. Commonly, organisations appoint rating agents, usually chartered surveyors, to appeal on their behalf. This means that generally, only appeals which would result in a *reduction* in rateable value are made to the VOA.

1.17 The net effect of any reduction in rateable value is a reduction in rates payable and consequently, a reduction in the rates yield for the Council. The amount of reduction at any given time is very difficult to predict but the Council is informed periodically by the VOA how much rateable value is under appeal.

1.18 The total rateable value for the Borough of Gedling currently stands at circa £58.5m. At any given time, approximately 22% of this rateable value can be under appeal. The consequence of these appeals is that the Council can never know exactly how much will be yielded from the business rates, nor how much the business rates yield may decrease in the future. This creates uncertainty in the Council's rates income and is entirely out of the Council's control.

Property Inspections

1.19 The Revenues Services team currently uses a software product called "Analyse Local" which searches for new rateable value by using aerial photography analysis and web search data.

1.20 The aim of this search service is to increase the Council's yield by identifying new rateable property, or enhancements to existing properties in the Borough. This service has been utilised by the Council since August 2016 and has so far generated an increase in rates yield of circa £192k.

1.21 The limit to this service is that no physical inspection of any property is undertaken. Comparison testing has shown that physical property inspections can generate significant increases in rates yield.

Future Plans

1.22 The service is currently considering the creation of a new Property Inspector role within the Revenues Services team, specifically designed to maximise the income generated from business rates and to minimise the impact of appeals on the Council's overall rates yield. This will complement the work already being undertaken by "Analyse Local".

Proposal

2.1 That the update on business rates be noted.

Alternative Options

3.1 This report is to note and therefore there are no alternative options. However, the alternative to the future plans would be to simply continue as we are now i.e. without making any physical inspection of business property. This would significantly increase the risk of not identifying new rateable property, or enhancements to existing properties, and therefore not maximising the potential rates income for the Council.

Financial Implications

4.1 Research will be required to ascertain the most cost effective appointment whether that is a full-time or part-time officer, and what the salary should be. However, the potential of an appointment will be investigated with the intention that the cost of the officer will be more than outweighed by the return to the Council in rates yield.

Appendices

5.1 None

Background Papers

6.1 DCLG Business Rates Information Letter – 20 June 2017

Recommendations

7.1 THAT:

(a) Cabinet notes the update in relation to recent changes to the business rates system.

(b) Cabinet notes the future plans to create a new Property Inspector role, designed to maximise the income generated from business rates.

Reasons for Recommendations

8.1 The Council faces many challenges in its administration of the business rates but more importantly, in the lack of certainty surrounding the value of the rates yield. Moving towards full retention of the business rates, the rates yield becomes ever more important as a primary source of the Council's funding. It is therefore important that the income generated from business rates is maximised.