

BIRMINGHAM CITY COUNCIL

PUBLIC

Report to:	CABINET
Report of:	Strategic Director - Finance and Legal
Date of Decision:	24th January 2017
SUBJECT:	BUSINESS RATES INCOME 2017/18
Key Decision: Yes	Relevant Forward Plan Ref: 002712/2017
If not in the Forward Plan: (please "X" box)	Chief Executive approved <input type="checkbox"/> O&S Chairman approved <input type="checkbox"/>
Relevant Cabinet Member(s):	Cllr Ward, Deputy Leader
Relevant O&S Chairman:	Cllr Mohammed Aikhlaq, Corporate Resources and Governance Overview & Scrutiny Committee
Wards affected:	All

1. Purpose of report:
<p>1.1 This report seeks approval to the City Council's business rates income projection for 2017/18 for submission to the Government. This forms the calculation of next year's revenue from business rates.</p> <p>1.2 The report sets out the basis of the calculation and the assumptions included.</p>

2. Decision(s) recommended:
<p>2.1 To approve the Business Rates Income for 2017/18 for Birmingham, as per appendix 1 and 2, whether or not the West Midlands Local Authorities enter into a 100% business rates pilot.</p> <p>2.2 Note that in the event that the Council becomes part of the Pilot the 2017/18 business rates income for Birmingham will be as shown in Appendix 1. This assumes 99% of the total business rates yield is retained by the City Council under the 100% Business Rates Pilot scheme effective from 1st April 2017. The West Midlands Fire and Rescue Authority will continue to receive 1%.</p> <p>2.3 Note that in the event that the Pilot does not go ahead as planned, the 2017/18 business rates income for Birmingham will be as shown in Appendix 2. This assumes 49% of the total business rates yield is retained by the City Council under the current scheme. The West Midlands Fire and Rescue Authority will continue to receive 1% and Central Government 50%.</p>

Lead Contact Officer(s):	Ian Harris, Senior Business Analyst
Telephone No:	0121-464 9367
E-mail address:	ian.harris@birmingham.gov.uk

3. Consultation

3.1 Internal

Officers in the Economy Directorate have been consulted in determining a forecast for business rates in 2017/18. The Deputy Leader of the Council has been consulted in the preparation of this report.

3.2 External

No consultation is required on the business rates income projection. It is a statement of fact supplemented by the City Council's estimate of likely growth and other changes in business rates in 2017/18.

4. Compliance Issues:

4.1 Are the recommended decisions consistent with the Council's policies, plans and strategies?

The completion of the business rates income projection does not have any direct implications for the City Council's Corporate Policy Priorities.

4.2 Financial Implications (Will decisions be carried out within existing finances and Resources?)

This business rates income projection will determine the income retained from business rates in respect of 2017/18, and will feed into budget calculations for the next financial year. The City Council calculates the level of business rates in the city based on the latest information available from the Valuation Office Agency (VOA) and also projects forward the level of additional business rates that is expected to be collected up to 31 March 2018. As part of the Business Rates Pilot, the City Council will be able to plan for the retention of 99% of this income (£399.302m) in 2017/18 when setting its budget. Should the Pilot not go ahead as planned the City Council will be able to plan for the retention of 49% of this income (£197.634m) in 2017/18. Under the Pilot, the increase in the Business Rates Baseline will be offset by adjustments to other grants received from the Government such as the Revenue Support Grant (RSG) and Business Rates Top-Up Grant. The Government has stated that there will be no financial detriment to the members of the Pilot at an aggregate level as a result of the decision to take part in the Business Rates Pilot compared to what would have been received under the current scheme. The pilot authorities have agreed internally to honour this no detriment agreement at the local level.

4.3 Legal Implications

The Council has always submitted a business rates return to the Government each year. As a result of the introduction of the Business Rates Retention Scheme through the Local Government Finance Act 2012, each billing authority is required to give formal approval to the business rates income projection due to its strong links with the budget setting process. The calculation and approval of the Council Tax Base will similarly be considered by Cabinet elsewhere on this agenda.

4.4 Public Sector Equality Duty (see separate guidance note)

There are no specific Equality Duty or Equality Analysis issues relating to the proposals set out in this report.

5. Relevant background/chronology of key events:

Business Rates Income

- 5.1 2017 is a re-valuation year. This means that the Valuation Office Agency (VOA) will use updated rateable values of properties in England and Wales in their 2017 valuation list from 1st April 2017.
- 5.2 The Valuation Office Agency (VOA) provided the City Council with the draft 2017 valuation list as at 25th September 2016. This has been used in calculating the business rates income projection. The Government continues to set the business rates multiplier which determines the level of business rates that each business pays. Valuations, on average, have increased nationally by 9.6% compared with the previous VOA '2010' list. In calculating the business rates multiplier, the Government ensures that the effect of re-valuation is neutralised at a national level so that total income from business rates remains broadly equal to the level generated from the updated 2010 rating list provided on 23rd September 2016. However, individual local authorities may see their business rates income increase or reduce as a result of re-valuation depending on whether the change in aggregate rateable value for their area is higher or lower than the national average. To neutralise any effect at a local level the Government will adjust the individual authorities' top-up grant or tariff payment due under the business rates retention scheme. In Birmingham the valuations have increased by 4.1% on average. Although once combined with the change in the multiplier, business rates income levels have reduced by 4.5%. This will be compensated for through an adjustment to the top-up grant from the Government.
- 5.3 The City Council has forecast the levels of growth, appeals and non-collection that are expected to occur in 2017/18 after taking account of re-valuation. This forecast is based on developments that are ongoing and planning approvals that are in place and expected to be completed in 2017/18.
- 5.4 The value of business rates growth over and above a pre-determined baseline expected to be collected from the Enterprise Zone is required to be calculated separately from the City Council's element of total income as this resource is ring fenced in its entirety to the Enterprise Zone.
- 5.5 In any year a proportion of the billed business rates cannot be collected, for example due to businesses going into liquidation. The City Council has made an assumption of 2% for non-collection in line with local historic experience. Should this collection rate be improved upon, the resulting surplus will become available to assist in budget setting in future financial years.
- 5.6 Each year appeals are made against the rateable value of properties that has been determined by the Valuation Office Agency. Appeals that are upheld are then backdated to the beginning of the ratings list period, or when the change in circumstances came into existence if later than this date. It is prudent for the City Council to make an assumption about the level of successful appeals that will be made each year to set aside adequate provision for repaying appeals.

- 5.7 The Government announced in its March Budget 2016 that there will be a permanent continuation of additional discounts to be awarded to small businesses in 2017/18 and future years. In addition the Government also announced changes to the parameters and thresholds for the awarding of small business relief resulting in more businesses benefitting in future. These changes impact both on the level of retained business rates generated along with the general unringfenced grants paid to compensate local authorities for loss of income.
- 5.8 After allowing for these changes and as a result of entering into a 100% Business Rates Pilot, the City Council's total projected retained income for 2017/18 from business rates is expected to be £399.302m (99%). In addition the City Council expects to receive compensatory grants of £28.507m. Revenue Support Grant from Central Government will no longer be received and top-up grant related income will be adjusted accordingly. Overall, the Government's no financial detriment policy along with our local agreement with pilot authorities will ensure that the Council is not adversely affected as a result of the decision to take part in the Business Rates Pilot compared to what it would otherwise have received, but it is expected that extra resources will be secured from the real terms growth in the former "Central Share" above the business rates baseline which has occurred since the inception of the locally retained business rates scheme. It is estimated that the additional resource to be taken into account in the Council's income will amount to £10m in 2017/18.
- 5.9 At its meeting of 18th October 2016 and as part of the Corporate Revenue Budget Monitoring 2016/17 Month 5 Report, Cabinet approved the participation of the City Council in the West Midlands Business Rates Retention Pilot, the City Council acting as the Lead Authority in the operation of the Pilot, and the delegation of authority to agree to the final details to the Strategic Director – Finance & Legal, in consultation with the Leader.
- 5.10 The process of finalising the arrangements for the Business Rates Pilot with Central Government is expected to be completed by the end of January or early February in time for the final local government finance settlement for 2017/18.
- 5.11 There will be no impact upon the annual billing process or the amount that individual businesses are charged as a result of the final approved scheme.
- 5.12 If the finalisation of pilot arrangements was not completed in time for the final local government finance settlement then the Council would continue to operate under the current scheme. If this were the case, the City Council's total projected retained income for 2017/18 from business rates is expected to be £197.634m with compensatory grants of £14.110m. In these circumstances Revenue Support Grant would be retained but the additional benefits from participating in the pilot (as referred to in paragraph 5.8) would be lost.

6. Evaluation of alternative option(s):

6.1 There are no alternative options to the calculation of the Business Rates Income Projection.

7. Reasons for Decision(s):

7.1 The business rates income projection is a key component in calculating the resources available to the City Council when setting its budget. It will also inform the key Business Rates Return (NNDR1) to Central Government which must, by law, be approved and communicated to the Government and Fire Authority no later than 31 January, each year.

Signatures

Deputy Leader

Date

.....

Chief Officer:

.....

List of Background Documents used to compile this Report:

List of Appendices accompanying this Report (if any):

1. Business Rates Income. 100% Pilot Scheme.
2. Business Rates Income. Original Scheme.

Report Version

Dated

Calculation of Business Rates Income – Pilot Scheme

	Outside the Enterprise Zone	Enterprise Zone
Number of hereditaments on the rating list 25th September 2016	45,308	1,391
	£	£
Aggregate rateable value on the rating list 25th September 2016	1,078,325,323	32,685,613
Small Business Non-Domestic Rating Multiplier	0.466	0.466
Gross Calculated Rate Yield	502,499,601	15,231,496
Less: Mandatory Reliefs	(82,853,539)	(1,886,054)
Less: Discretionary Reliefs	(891,997)	(870,610)
Plus: Forecast for Growth	7,525,000	106,155
Gross Rate Yield after Reliefs and Growth	426,279,065	12,580,987
Less : Estimate of Losses in Collection for Current Year at 2%	(8,740,967)	(36,234)
Less : Allowance for Cost of Collection	(1,893,141)	0
Enterprise Zone Baseline	10,769,281	(10,769,281)
Less: Estimate of Rates to be Retained due to Renewable Energy Schemes	0	0
Net Rate Yield	426,414,238	1,775,472
Less: Allowance for Appeals and Prior Years Adjustments	(23,078,669)	(250,895)
Net Rate Yield after Allowance for Appeals to be distributed	403,335,569	1,524,577
Less: Transitional relief due to increase in business rates being deferred	(23,864,546)	0
Plus: Transitional relief due to decrease in business rates being deferred	27,293,480	0
Net Rate Yield after Transitional Arrangements to nearest £	406,764,503	1,524,577
0% of Business Rates to be paid over to Central Government	0	
99% of Business Rates to be retained by Birmingham	399,302,213	
1% of Business Rates to be retained by West Midlands Fire and Rescue Authority	4,033,356	
100% of Business Rates to be retained by GB&S Local Enterprise Partnership		1,524,577
Total Business Rates Redistributed through Rates Retention Scheme	403,335,569	1,524,577
Retained Income		
Total Resources before Funded Reliefs	399,302,213	1,524,577
Enterprise Zone Relief retained in full (included in discretionary relief above)	0	845,610
Section 31 Grants:		
Small Business Relief	22,509,367	447,846
Inflation (2015-16 2% Multiplier Cap)	5,998,102	22,901
Total	28,507,469	470,747
Total Resources Including Funded Reliefs	427,809,682	2,840,934

Calculation of Business Rates Income – Current Scheme

	Outside the Enterprise Zone	Enterprise Zone
Number of hereditaments on the rating list 25th September 2016	45,308	1,391
	£	£
Aggregate rateable value on the rating list 25th September 2016	1,078,325,323	32,685,613
Small Business Non-Domestic Rating Multiplier	0.466	0.466
Gross Calculated Rate Yield	502,499,601	15,231,496
Less: Mandatory Reliefs	(82,853,539)	(1,886,054)
Less: Discretionary Reliefs	(891,997)	(870,610)
Plus: Forecast for Growth	7,525,000	106,155
Gross Rate Yield after Reliefs and Growth	426,279,065	12,580,987
Less : Estimate of Losses in Collection for Current Year at 2%	(8,740,967)	(36,234)
Less : Allowance for Cost of Collection	(1,893,141)	0
Enterprise Zone Baseline	10,769,281	(10,769,281)
Less: Estimate of Rates to be Retained due to Renewable Energy Schemes	0	0
Net Rate Yield	426,414,238	1,775,472
Less: Allowance for Appeals and Prior Years Adjustments	(23,078,669)	(250,895)
Net Rate Yield after Allowance for Appeals to be distributed	403,335,569	1,524,577
Less: Transitional relief due to increase in business rates being deferred	(23,864,546)	0
Plus: Transitional relief due to decrease in business rates being deferred	27,293,480	0
Net Rate Yield after Transitional Arrangements to nearest £	406,764,503	1,524,577
50% of Business Rates to be paid over to Central Government	201,667,784	
49% of Business Rates to be retained by Birmingham	197,634,429	
1% of Business Rates to be retained by West Midlands Fire and Rescue Authority	4,033,356	
100% of Business Rates to be retained by GB&S Local Enterprise Partnership		1,524,577
Total Business Rates Redistributed through Rates Retention Scheme	403,335,569	1,524,577
Retained Income		
Total Resources before Funded Reliefs	197,634,429	1,524,577
Enterprise Zone Relief retained in full (included in discretionary relief above)	0	845,610
Section 31 Grants:		
Small Business Relief	11,141,000	447,846
Inflation (2015-16 2% Multiplier Cap)	2,968,758	22,901
Total	14,109,758	470,747
Total Resources Including Funded Reliefs	211,744,187	2,840,934