Scrutiny Overview Committee

Agenda Item No. 8

23 APRIL, 2019

Business Rates

Ward(s) All

Portfolios: Cllr M Bird – Leader of the Council

Executive Summary:

Following a request from scrutiny committee Members this report provides an overview of the current business rates framework in operation for local authorities. It details what types of properties are chargeable, who is chargeable, how these charges are calculated, collection rates and how the Council accounts for the income.

Reason for scrutiny:

To inform the committee of the business rates framework that the authority operated within and identify the main points and key issues that members need to be aware of.

Recommendations:

To note the content of the report and raise any further questions that Members feel may be required to support their understanding of business rates.

Background papers:

The Local Government Finance Act 1988
The Non-Domestic rating (Unoccupied Property) (England) Regulations 2008
The Non-Domestic Rating (Chargeable Amounts) (England) Regulation 2016
Written Statement – Tackling fraud and avoidance of non-domestic rates in Wales - Mark Drakeford, Cabinet Secretary for Finance
Barclay Implementation – A consultation on non-domestic rates reform – Scottish Government
Accounts and Audit Regulations (England) 2015

1. Report

1.1. Non-domestic rates (NDR), otherwise known as business rates, are charged on a number of different types of properties such as shops, offices, workshops, factories, warehouses, pubs, restaurants, schools, leisure facilities, hospitals, hotels, car parks, community centres, advertising rights, mobile phone masts, quarries and some ATMs.

1.2. Each property that is subject to business rates has a Rateable Value (RV) calculated by the Valuation Office Agency (VOA), an agency of Her Majesty's Revenue & Customs (HMRC). This rateable value is a figure equal to the market rental value of the property as at a certain date.

1.3. The valuation office agency revalues all properties on a regular basis. The current rating list came into effective from 1 April 2017 and will be in force for four years – with these valuations being based on rental values as at 1 April 2015 (the government is currently working to move towards a three year revaluation with the purpose of making the values more relevant).

1.4. A transition scheme is in place to support businesses who see a large increase in the rates payable caused by the revaluation by phasing in the increase over a period of time. The transition scheme is designed to be self-financing, as such any businesses who see a large reduction in rates payable also see this phased in over a period of time rather than immediately.

1.5. Each year parliament determines a business rates multiplier (which normally increases each year by the rise in CPI as at the previous September) which is used to determine the actual chargeable business rates value for any property – this is calculated by multiplying its RV by the multiplier for the year e.g. RV = £50,000 and the multiplier for 2019/20 = 0.491, then the actual business rates invoice for the year (prior to any reliefs / exemptions) would be £24,550.

1.6.

1.7. If there is rateable occupation of the property then the ratepayer will be the person/ organisation that are occupying the property. There is no legal definition of rateable occupation but case law has determined that actual, exclusive and beneficial occupation needs to be in place.

1.8. If the property is not occupied then the ratepayer is the person/organisation that has 'entitlement to possession' of the property.

1.9. There is a system of mandatory and discretionary reliefs which could reduce the level of business rates payable on a property.

1.10. Mandatory relief (which the council is obliged to offer) is given to ratepayers that only occupy one small property (with a rateable value of less than £15,000 per year – 100% relief given if the rateable value is less than £12,000, which then tapers off between £12,000 and £15,000) or where they are a charity and occupy the property wholly or mainly for charitable purposes.

1.11. Also when a property becomes empty then it receives 100% relief for the first 3 months that the property is unoccupied (or the first 6 months in the case of industrial properties). After that initial period there is no further reduction on the level of rates payable on empty properties - unless it qualifies for one of the empty rates exemptions. Examples of these are; empty listed buildings, empty properties with a rateable value of less than a prescribed level, empty properties in the hands of liquidators or administrators and empty properties where the ratepayer is a charity and it appears that when next in use it will be used for charitable purposes.

1.12. Nationally empty rates reliefs have seen a high degree of avoidance techniques being utilised in an effort to maximise the entitlement to these reductions, for example through the use of short term (6 week) occupations and granting of leases to charities or companies that immediately go into insolvency. Recent court cases have been supportive of authorities seeking to challenge these practices and now the Welsh and Scottish Governments have issued consultation papers on the best process to tackle such avoidance. At present no consultation paper has been issued for England.

1.13. The authority also has local discretion to choose to give relief to properties where the ratepayer is in occupation of only part of the property and where that situation will only last for a short period of time. They can also choose to award discretionary relief to properties which are occupied by charities or other organisations not established or conducted for profit and the occupation benefits the local community.

1.14. In addition a local authority can also choose to award relief to any ratepayer if they consider the circumstances warrants the relief and it is in the interests of the authority's tax payers to award the relief. An example of this is where an authority is regenerating an area and offers reliefs to attract businesses and growth. Walsall Council does not currently award any reliefs of this type.

1.15. In recent years the government have introduced temporary schemes where a local authority can grant relief for particular properties and then the government would reimburse the authority for any loss in income (via a revenue grant). The latest example of this is the relief for certain retail properties in the last budget which is equivalent to one third off their 2019/20 rate bill.

2. Total Rates & Collection Rates

2.1. The table below sets out the total amount of business rates charged for each year along with the percentage collected at the end of that year plus the percentage collection as at 31 March 2019. These percentages are calculated before any write offs so the actual remaining balance outstanding will be a lower figure. The biggest proportion of write-offs are due to insolvency and companies being dissolved.

Year	Amount of Charge	% collected at end of year	% collected as at 31 March 2019	% written off	Outstanding % as at 31 March 2019
2018/19	£73,110,472.90	98.2%	98.2%	0.0%	1.8%
2017/18	£70,977,642.15*	97.7%	98.5%	0.2%	1.3%
2016/17	£72,112,986.39	97.2%	98.5%	0.6%	0.9%
2015/16	£69,714,660.07	97.7%	98.9%	0.7%	0.4%
2014/15	£67,961,305.87	97.1%	98.3%	1.1%	0.6%
2013/14	£67,834,865.39	96.9%	98.2%	1.3%	0.5%

2012/13	£66,639,556.45	96.6%	98.1%	1.5%	0.4%

*** The amount of charge reduced in 2017/18 due to the general revaluation of properties, with the increase in RV's in Walsall not matching the average increase across the country.**

3. West Midlands Business Rates Pilot

3.1. The Council is part of a Business Rates pilot scheme along with the other West Midlands Local Authorities, the aim being to model different funding options so that Local Government can move toward becoming more self sufficient with greater control over retaining local taxation income and encouraging business growth. The pilot area agreement sets out that income is shared 99% to the (relevant) council and 1% to the fire authority.

4. National Business Rates Retention Scheme

4.1. The majority of Local Authorities in England are not part of a business rates pilot and are within the 50% Business Rates Retention Scheme. Within this scheme each local authority retains 49% of the income generated, Government's share is 50% and the final 1% share to Fire authorities. There are some differences to the shares retained for Counties, however the Government share remains the same.

4.2. The Government has indicated that local authorities are likely to move towards 75% rates retention rather than 100%, however how this is likely to work in practice and how Walsall Council will transition from its current pilot scheme is not yet clear.

5. Calculating Business Rates Income Due and Surplus / Deficit on the Collection Fund

5.1. The statutory framework requires the council, before the beginning of a financial year, to forecast the amount of business rates that it will collect during the course of the year and, from this, to make a number of allowable deductions in order to arrive at a figure for its non-domestic rating income. It is the non-domestic rating income (from this NNDR1 Form) that is shared between the parties to the scheme.

5.2. The scheme is accounted for and monitored within the council's Collection Fund, separate to the General Fund (which includes all day to day spending on services and income).

5.3. The calculations that the council makes before the start of the financial year (from the NNDR1 return) determine how much funding will be paid the fire authority during the course of the year and how much is retained by Walsall. Since these payments are fixed at the outset of the year, it follows that any difference between forecast amounts and final outturns will result in a surplus or deficit on the Collection Fund. Any such surplus or deficit is shared between the council and the fire authority in line with their share of the business rates baseline described above (99% and 1% respectively).

5.4. Appeals are made directly by ratepayers to the VOA and are then notified by the VOA to the council. The council does not have any power to influence the decision of the VOA. If successful the appeal can be back dated to the start of the current valuation period for which the appeal was made.

5.5. Following the implementation of the 2017 rating list there is a revised appeal process - check challenge appeal, which is designed to provide an easier system to navigate, with the emphasis on early engagement by the parties (the appellant and the VOA) to reach a swift resolution of cases and reduce the number of speculative appeals.

5.6. The council is required to make a provision for expected appeals within the collection fund each year based on an estimate of the potential number of appeals, the resulting change in rateable value and the potential success of the appeals. The cost of this appeal provision reduces the overall income available within the collection fund to be distributed amongst the council and the fire authority in line with their respective shares.

Contact Officer:

Mark Fearn – Project Lead – Money, Home, Job
☏. 01922 658983
Mark.fearn@walsall.gov.uk

Richard Walley – Finance Manager – Technical Accounting and Treasury Management
☏. 01922 650708
richard.walley@walsall.gov.uk