

Report of Chief Officer Financial Services

Report to Scrutiny Board (Strategy and Resources)

Date: 22 March 2018

Subject: Business Rates Update

Are specific electoral wards affected? If yes, name(s) of ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary of main issues

1. To provide the board with:
 - an overview of Business Rates Administration and current performance in collection;
 - an update on the number of outstanding business rates appeals (on a month by month basis);
 - an update on the 100% business rates retention pilot and associated governance arrangements;
 - confirmation of the impact on the 2018/19 budget of estimates for business rates appeals; and
 - a brief update on Government's stated intention to centralise some aspects of business rates appeals.

Recommendations

The Scrutiny Board is recommended to note the information and issues highlighted in this report and consider if the Scrutiny Board wishes to undertake any further scrutiny work to support improvement over the coming year.

1. Purpose of this report

- 1.1 This report sets out an overview of the work undertaken in the administration of business rates.
- 1.2 It also updates Scrutiny Board on a number of other issues relating to business rates retention and draws the Board's attention to the Government's renewed intention to address the issue of the impact of business rates appeals.

2. Background information

- 2.1 Business rates are a local tax paid by businesses and other organisations based on a valuation of their premises and a rate (the multiplier) set by central government. Their administration and collection is determined by extensive legislation and subsequent case law that has developed definitions of the meaning of the legislation. All properties are revalued periodically with the current rating list coming into effect from April 2017.
- 2.2 Until 2013 Local Authorities collected business rates in their area which was all paid over to central government and then redistributed on the basis of need. Since 2013 50% has been retained locally and from 2018 Leeds has been selected as a pilot authority for 100% retention.
- 2.3 The administration of business rates in Leeds is undertaken by a team consisting of 15.5 FTEs who are responsible for all aspects of billing, collection and customer contact. The cost of collection is effectively funded by central government through an allowance, which was £1.2m for 2017/18.

3. Main issues

Business Rates Administration and current performance in collection

- 3.1 Business rates now constitute a significant proportion of the Council's income and the following is a summary of the work undertaken to ensure that the administration is accurate and effective and the potential income maximised.
- 3.2 Rating List maintenance
 - 3.2.1 There are currently 29,234 properties subject to business rates in Leeds with a total rateable value of £920m which generated a net income of £380m for 2017/18. Approximately one third of ratepayers are individuals with the remainder being limited companies or other organisations.
 - 3.2.2 The rateable value of each property is calculated by The Valuation Office Agency (VOA) and they update the rating list on a weekly basis as changes are made, which can be due to the following reasons:
 - New properties brought into the rating list
 - Existing properties split or merged
 - Properties removed due to demolition or conversion to domestic
 - Successful appeals against the rateable value
 - 3.2.3 The local authority must ensure that accounts are issued based on the current entry in the rating list. To date over 8,000 amendments to the list have been processed during 2017/18.

3.2.4 Local authorities have a statutory duty to notify the VOA if they believe an amendment to the rating list is required. To date £23.2m of additional rateable value has been added to the 2017 rating list as a result of reports submitted by Leeds to the VOA during 2017/18. These were identified mainly by the regular inspection of all properties with outstanding planning permission.

3.3 Ratepayers

3.3.1 The occupier of a property is liable for business rates and this is calculated as a daily charge. Therefore if there is a change of occupier or a property becomes vacant there is a change in liability and a new ratepayer must be charged. To date just over 9,000 new accounts have been raised during 2017/18.

3.3.2 There is no statutory obligation for ratepayers to advise the Council of any change in occupation, nor to respond to any request for such information

3.4 Reliefs and Exemptions

3.4.1 The gross rates payable in 2017/18 are £427m. However the net rates payable after reliefs and exemptions are taken into account are £380m. The key reliefs are as follows:

i. Mandatory Rate relief

This is awarded to registered charities and organisations which are exempt from registration, principally higher and further education facilities and schools outside of the control of the local authority such as academies and free schools.

The relief is 80% of the rates payable and was £27.6m in 2017/18. The value of this relief has increased significantly from £13.6m in 2010/11 due primarily to the introduction of Academies and Free Schools.

ii. Small Business Rate Relief

This is awarded to businesses who occupy only one commercial property and which has a rateable value below £15000. For properties under £12000 the relief is now 100% and there are just over 9,000 businesses currently receiving full relief. The total value of the relief has also increased significantly from £8.2m 2010/11 to £25.7m in 2017/18 due to changes in the rateable value threshold and an increase in the maximum relief from 50% to 100%.

iii. Transitional Arrangements

These are intended to phase in the impact of changes in rateable value as a result of the 2017 revaluation. The scheme both limits the increase in rates payable for those ratepayers whose liability has increased and caps the reduction in rates payable for those ratepayers whose liability has fallen. In 2017/18 businesses in Leeds received £11.2m in relief whilst £31.5m was added to the rates payable of those whose reduction was capped.

iv. Discretionary Rate Relief

The Council has always had the discretion to award relief from rates to not for profit organisations. The current policy was approved by the Executive Board with individual decisions delegated to the Chief Financial Officer, and includes relief for sporting organisations, social enterprises and organisations

associated with Arts and Culture. The value of this discount is £0.5m in 2017/18 and has not changed significantly in recent years.

v. Local Discounts

The Localism Act 2011 gave Local Authorities the discretion to award discounts to any business, regardless of whether they were conducted for profit. The Government have also used this provision to create new discounts which they then fully fund via Section 31 grant.

Leeds has adopted a local scheme, approved by the Executive Board, which allows up to 80% relief for a fixed period for businesses which meet the following criteria: Young Enterprises in priority sectors, Civic Enterprise, Utilisation of listed buildings, significant inward investment, shared workspaces and safeguarding employment. Discounts to the value of £0.5m have been approved in 2017/18.

Discounts fully funded by the Government include: up to £55,000 for businesses in the Aire Valley Enterprise Zone, discounts for businesses affected by flooding (applicable in Leeds in 2016/17), and a £1,000 discount for public houses.

In March 2017 the Government also made funding available for councils to develop their own schemes to support businesses which has been adversely affected by the 2017 revaluation. The funding for Leeds was £1.68m in 2017/18 and a scheme was approved by Executive Board which reduced the increases faced by 3,500 businesses by 50%. The Government funding for 2018/19 is reducing to £0.82m and a more limited scheme has been approved to provide a discount to 500 of the worse affected small to medium sized businesses, and to 100 childcare providers.

vi. Empty Property Reliefs and exemptions

In 2008 the rates payable on vacant properties was increased from 50% of the occupied rate to 100% and total exemptions were removed from industrial properties. A number of exemptions and reliefs apply including exemption for the first three months (six months for industrial properties), listed buildings, properties owned by companies in insolvency and those with a rateable value under £2,900. The total value of exemptions and reliefs on empty properties for 2017/18 to date is £19m.

Empty rate mitigation has become very widespread over recent years with a number of companies set up specifically to exploit loopholes in the legislation and obtain exemptions from empty rates for their clients. The loss of income to the Authority due to this activity is estimated to be in the region of £6m per annum.

3.5 Collection and Enforcement:

3.5.1 The collection and enforcement of business rates is governed by extensive legislation and case law. Rates are automatically payable over 10 monthly instalments and ratepayers have the option to extend this to 12.

3.5.2 The Council's preferred method of payment is direct debit and currently 51% of rates are received this way. The majority of the rest is received electronically via BACS payments, with the number of cheque and cash payments continuing to decline.

- 3.5.3 Enforcement is initially via reminder notices followed by a summons to the Magistrates Court if payment is not received. 2,700 summonses have been issued in 2017/18, just under 10% of the total caseload.
- 3.5.4 In the majority of cases payment arrangements are agreed with the ratepayer. However, should this not be possible, the options are action by Enforcement Agents (previously bailiffs) or, in limited cases, insolvency action is instigated.
- 3.5.5 The overall collection rate for all previous years since 2000/01 is just over 99%. However there have been fluctuations with the highest rate 99.4% in 2007/08 and the lowest 98.7% in 2011/12.
- 3.5.6 Of the average 1% not collected, 80% is due to company failure including insolvency and, where a company has no assets, dissolution. The remainder is due to being unable to trace individuals who have absconded or who have no assets.
- 3.6 Business Improvement Districts (BID):
- 3.6.1 The Business Rates team is also responsible for billing and collection for two Business Improvement Districts on behalf of Leeds BID Ltd and Otley BID Ltd. A fee is received for this service.
- 3.7 Assurance
- 3.7.1 As part of the annual Internal Audit Plan (2017/18) time had been allocated for undertaking fundamental reviews of Council key financial systems. This included the administration and collection of business rates, and helps provide assurance to support the Head of Internal Audit's Annual Opinion on the control environment.
- 3.7.2 The most recent Internal Audit assurance report was completed in January 2018 and recorded substantial assurance for the control environment, with no recommendations for improvement identified. A copy of the Internal Audit report is attached at **Appendix 1**.
- 3.7.3 It should be noted that the previous three Business Rates audits received substantial assurance for the control environment. For systems that receive this level of assurance, testing of compliance with the control environment is carried out once every three years

Outstanding business rates appeals

- 3.8 On 1st April 2017, there were 5,337 appeals outstanding against the 2010 Ratings List. By 28th February 2018, these had reduced by just under 50% to 2,690 appeals outstanding, with 24.8% of the city's total rateable value currently subject to at least one appeal. Numbers of appeals received each month are detailed at **Appendix 2**.
- 3.9 No appeals have been received to date against the 2017 Ratings List.

The 100% business rates retention pilot

- 3.10 The Leeds City Region Business Rates Pool was notified of its successful bid to pilot 100% retention in December 2017. Because the membership of the Pool has not changed Government did not need to redesignate the Pool. However, the Terms of Reference and the Governance Agreement will be updated slightly to reflect the

operation of the 100% pilot and adoption of these updated documents will be recommended at the first 2018/19 Pool Joint Committee meeting in July.

- 3.11 At its June 2017 meeting, the Joint Committee agreed to improve processes so the Pool's funding priorities are more widely understood, with a more inclusive process to bring forward, evaluate and agree spending proposals. A new Prospectus for bids, discussed at the March 2018 meeting, will introduce a revised approach to project selection, focussing on four key strategic themes: Culture, Sport and Major Events, Enabling Housing Growth, Business Support, Trade and Investment and Inclusive Growth. This Prospectus will be launched in April, and bids for funding will be considered in July.
- 3.12 Officers from member authorities have met to agree how to deal with a wide range of technical and administrative issues arising from delivering the business rates pilot.
- 3.13 Leeds City Council, as the Lead Authority for the pilot, has been invited to attend a Pilots launch event, hosted by the Ministry of Housing, Communities and Local Government on Monday 26 March 2018. It is intended that the event will enable pilot areas to jointly establish the aims and expectations of piloting in 2018-19 and enable Government and the local government sector to maximise the learning opportunities from the piloting programme.

Provision for Appeals and the 2018/19 budget

- 3.14 The opening appeals provisions for 2017/18 was £25.0m, made up of £23.0m relating to appeals received against the 2010 ratings list and £2m estimated costs in advance of appeals being received against the new 2017 ratings list.
- 3.15 During 2017/18 provisions were increased by £5.4m and £14.7m of appeals were charged against the provision, so that remaining provisions carried forward into 2018/19 total £15.7m. The 2018/19 budget reflects that a further £10m has been set aside from estimated 2018/19 business rates income to provide for the estimated cost of appeals in 2018/19, giving a total provision of £25.7m. The additional £10m set aside in 2018/19 reflects the assumption that the Authority will begin to receive appeals against the 2017 Ratings list.

Government's intention to address the issue of appeals

- 3.16 The Local Government Finance Bill 2016-17, which was to provide the framework to deliver 100% Business Rates Retention, had included proposals to give the Secretary of State power to make regulations about the calculation and payment of 'loss payments' to authorities with regard to business rates, and was understood to be intended to give the Government power to create a pool for 'tone of the list appeals', so that the risk would not sit with individual local authorities. 'Tone of the list' appeals are specifically those which are correcting valuation errors made by the VOA.
- 3.17 Following the 2017 general election the Bill fell and so did not form part of the Parliamentary timetable. However, earlier this month the Local Government Minister, Rishi Sunak has again acknowledged the issues of business rates appeals and confirmed the Government's intention to develop a 'centralised risk-sharing

system' under which councils would share the burden of business rates appeals. There are no further details at this stage.

4. Corporate considerations

4.1 Consultation and engagement

4.1.1 This report is for information only and as such has no issues directly requiring consultation or engagement.

4.2 Equality and diversity / cohesion and integration

4.2.1 This report is for information only and has no direct equality and diversity/cohesion and integration impact. It is not necessary to conduct an equality impact assessment.

4.3 Council policies and best council plan

4.3.1 Achievement of the priorities identified in the Best Council Plan requires that the Council's financial resources are maximised. The management of business rates is therefore essential to ensuring that the City can deliver on its ambitions.

4.3.2 This report provides an update on progress in delivering the council priorities in line with the council's performance management framework.

4.4 Resources and value for money

4.4.1 The financial implications of the provision for business rates appeals on the 2018/19 budget are discussed in this report.

4.5 Legal implications, access to information, and call-in

4.5.1 All performance information is publicly available and is published on the council website.

4.5.2 This report is an information update providing Scrutiny with a summary of performance for the strategic priorities within its remit and as such is not subject to call in.

4.6 Risk management

4.6.1 The adequacy of resources to meet the Best Council Plan objectives in a sustainable way is identified as one of the Council's corporate risks. The management of business rates risk is a key element of this and is subject to regular review. Detailed monitoring arrangements are in place and key issues are highlighted to Financial Performance Group and to Executive Board monthly.

5. Conclusions

5.1 This report provides a summary of the work undertaken by the Business Rates section in the administration of business rates.

5.2 It also updates Scrutiny Board on a number of other issues relating to business rates retention and draws the Board's attention to the Government's renewed intention to address the issue of the impact of business rates appeals.

6. Recommendations

- 6.1 The Scrutiny Board is recommended to note the information and issues highlighted in this report and consider if the Scrutiny Board wishes to undertake any further scrutiny work to support improvement over the coming year.

7. Background documents¹

None used.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.