PART 1 (OPEN TO THE PUBLIC)	ITEM NO.

REPORT OF THE CHIEF FINANCE OFFICER

TO: LEAD MEMBER FOR FINANCE AND SUPPORT SERVICES
THURSDAY, 6 JANUARY 2022

TITLE: BUSINESS RATES - COLLECTION FUND ESTIMATED FUND BALANCE CALCULATION 31 MARCH 2022

RECOMMENDATIONS:

That the £6.424m second year allocation of the phased 2020/21 estimated deficit to preceptors' general funds in 2022/23 be noted.

That a £12.244m deficit be declared as the estimated Collection Fund balance as at 31st March 2022 in respect of the business rates retention scheme.

That it be noted that the £13.818m adverse variance for retail relief and nursery discount that contributed towards the fund being in a deficit rather than surplus position will be covered by government funding.

That delegated approval be granted to the Chief Finance Officer to approve the business rates estimate for 2022/23 and to notify the respective amounts to be distributed to the council and the Greater Manchester Combined Authority (GMCA) (in relation to its fire and rescue functions).

EXECUTIVE SUMMARY:

The Non-Domestic Rating (Rates Retention) regulations 2013 provide for the operation of the rates retention system through the council's Collection Fund. They require a local authority to estimate the balance on its Collection Fund for the scheme as at 31st March each year and to notify the government and each relevant precepting authority of the amounts that have been calculated by 31st January in the preceding year. As part of the 100% rates retention pilot any balance is to be distributed to/borne by the council and GMCA (fire element) in the following year based on the prescribed share for each.

A deficit occurs on the collection fund when the collection performance is worse than that budgeted for at the start of the year and/or if the rateable value in the city is lower than that estimated at the start of the year.

BACKGROUND DOCUMENTS:

Various reports and papers including business rates system reports, the Non-Domestic Rating (Rates Retention) regulations 2013, the Local Authorities (Collection Fund: Surplus and Deficits) (Coronavirus) (England) Regulations 2020 and appeals information from the valuation office agency.

KEY DECISION: Yes

DETAILS:

See overleaf

REPORT DETAILS

1. Background

1.1. Each billing authority is required to maintain a separate Collection Fund, which shows its transactions in relation to non-domestic rates and council tax, and illustrates the way in which these have been distributed to preceptors, the government and the general fund.

1.2. Regulations require the council to make estimates by 31st January each year of the likely deficit or surplus at the end of the year in respect of business rate transactions and to notify the government and the fire authority of this. As part of the 100% rates retention pilot, any such balance is to be distributed to/borne by the council (99%) and GMCA (fire) (1%) in accordance with the business rates retention scheme (BRRS).

1.3. This report gives details of the Collection Fund transactions in respect of business rates in 2021/22. The analysis is based on actual data up to and including 31st October 2021 projected to 31st March 2022. The projected outturn considers the net business rates yield in the year and the associated amounts paid to the fire authority and the council as their estimated share under the BRRS regulations. The net position produces a surplus or deficit on the Collection Fund in respect of business rates.

2. Original estimate 2021/22

2.1. The council's 2021/22 original estimate, as shown in the NNDR1 return to the government, forecast that the council's net business rate yield would be £90.743m and that the council's share of retained income under the 100% rates retention pilot would be £89.836m.

2.2. The estimate was considered prudent but highlighted the significant concern both locally and nationally about the impact of the cost of appeals in the system. This is covered in more detail in section 3.4 of this report.

2.3. The estimate provided for growth increasing the total business rates income by £3.5m in 2021/22. Although this was a large increase, it was considered to be a prudent estimate based on information from the council's investment team which reflected the likely impacts of new assessments in the valuation process and the impacts of the council's regeneration strategy. The majority of the increase was expected to come from developments close to the city centre.

2.4. The assumed collection rate of 95.0% took into account the ongoing adverse impacts of Covid-19 as well as the continued use of business rates avoidance tactics.

2.5. The NNDR 1 return did not include retail relief or nursery discount elements as the government had not decided at the time as to whether the schemes would be continued in 2021/22.

3. Estimated outturn 2021/22

3.1. The estimated outturn position is significantly different to the original estimate due to the implementation of a revised retail relief and nursery discount scheme that was announced after the original estimate had been set.

3.2. The following table shows the forecast variance of each aspect of the fund with the bottom line representing the 2021/22 estimated deficit.

Table 1

	Original estimate	Estimated outturn	Variance
	£m	£m	£m
Gross rates payable (including growth)	127.210	123.054	-4.156
Small business rate relief	-9.614	-9.968	-0.354
Mandatory relief	-9.102	-9.244	-0.142
Empty property relief	-6.345	-6.345	0.000
Discretionary relief	-0.241	-0.402	-0.161
Retail relief and nursery discount	0.000	-13.818	-13.818
Other relief	-0.004	0.000	0.004
Estimated losses in collection	-5.094	-2.632	2.462
Costs of collection allowance	-0.438	-0.438	0.000
Estimated cost of appeals	-5.629	-6.847	-1.218
2020/21 outturn adjustment	0.000	5.139	5.139
2021/22 estimated deficit	**90.743**	**78.499**	**-12.244**
To be distributed as follows:			
• Council share (99%)	89.836	77.714	-12.122
• GMCA (fire and rescue functions) (1%)	0.907	0.785	-0.122
Total	**90.743**	**78.499**	**-12.244**

3.3. **Review of the variances in table 1**

3.3.1. The rateable value for the city has reduced by 1.1% from £243.234m (Jan 2021) to £240.600m (Nov 2021). Growth in the city has slowed considerably during the pandemic and has been more than outweighed by both the reduction in value and the removal of properties from the rating list. Gross rates payable have also decreased as some of these list alterations have backdating implications to prior year liabilities.

3.3.2. Following the setting of authorities' original estimates for 2021/22, the government announced the implementation of a revised retail relief and nursery discount scheme for the year to assist businesses with the ongoing impacts of Covid-19. Eligible businesses receive 100% relief on rates between April and June 2021 and 66% relief from July 2021 to March 2022. The 66% relief period is subject to a cap of £0.105m or £2m per business depending on whether the business was required to close under legislation. The outturn estimate of £13.818m generates an adverse variance for the same amount as there was no original estimate for this. The government will reimburse the full cost of this to the council with funding having been received on an estimates basis throughout this year. The overall impact of this variance will therefore be neutral to the council, but regulations require the separation of the costs to the fund and the reimbursement to the preceptors. It should be noted that without this variance the 2021/22 outturn estimate would become a surplus of £1.574m.

3.3.3. The estimated outturn figure for estimated losses in collection incorporates the allowance set aside for the 2021/22 liability year as well as the impact of revised collection rate assumptions relating to all prior year liabilities. The majority of the £2.462m positive variance relates to the allowances set aside for the prior 2020/21 and the current 2021/22 liability years.

- The overall collection rate estimate for the 2020/21 liability year has been increased to 94.50% from 92.50%. The assumed rate was initially set at the lower level due to concerns around the impact of Covid-19 on collection. However, collection has been less severely impacted than originally forecast and so the amount set aside for losses in collection has been reduced.

- The overall collection rate estimate for the current 2021/22 liability year was set at 95.0% in the original estimate and this has been maintained for the estimated outturn. Although the percentage has stayed the same, the value of collectible rates that it is based on has reduced, mainly due to the retail relief and nursery discounts. This has meant that the actual value to be set aside for losses in collection has also reduced.

3.3.4. The 2020/21 outturn adjustment relates to the difference between the estimated and actual outturns for that year. The variance is much larger than usual due to the additional uncertainty that was involved with forecasting the impact of Covid-19. The main elements contributing to the difference were:

- the announcement by government that they would legislate to rule out Covid-19 related material change of circumstance appeals. The estimated 2020/21 outturn included provision for these appeals but they were removed for the actual outturn.
- collection rates were less severely impacted by Covid-19 than had been anticipated in the original outturn estimate and therefore the estimated value of losses in collection was reduced.

3.4. **Appeals**

3.4.1. The Valuation Office Agency (VOA) continues to provide detailed historical information on appeals from the inception of the 2005 rating list to the end of the subsequent 2010 list. Based on historical data it is anticipated that a provision for losses of around £2.1m will need to be included in the 2021/22 accounts.

3.4.2. The Government introduced the Check, Challenge, Appeal system on 1st April 2017 with the intention of streamlining the appeals process and reducing the number of speculative claims that reach the appeal stage. This system is only for appeals received from 1st April 2017 against the 2017 valuation list and does not affect those outstanding against the 2010 valuation list.

3.4.3. In accordance with the government's announcement that it would legislate to rule out Covid-19 related appeals, no specific provision has been made for them.

3.4.4. The appeals provision for the 2017 rating list to date has been calculated as £21.2m.

4. Three-year phasing of the 2020/21 estimated deficit

4.1. As a consequence of Covid-19, a new regulation was introduced for calculating the 2020/21 estimated outturn position on the Collection Fund. If a fund deficit was forecast for 2020/21 then the financial impact of this was required to be spread over the next three financial years rather than just the next one.

4.2. The 2020/21 estimated fund deficit calculated for Salford was £50.422m and this comprised:

- the prior year surplus variance of £0.010m;
- the retail relief and nursery discount variance of £31.138m (funded by grant) and;
- the 2020/21 year "exceptional balance" of £19.273m.

4.3. One third of the 2020/21 "exceptional balance" of £19.273m is required to be charged to preceptors' general funds in the following three financial years 2021/22, 2022/23 and 2023/24. The charge in each year will be £6.424m, to be apportioned to preceptors as follows:

Organisation	£m
Salford City Council	6.360
GMCA (fire and rescue functions)	0.064
Total	**6.424**

5. Estimate 2022/23

5.1. Work is ongoing to calculate the 2022/23 estimated business rates yield. This estimate will be calculated using the latest rateable value, the impact of changes in the rate poundage, the latest estimates of the appeals provision, collection rate data, the impacts of any relief and forecasts of continuing impacts of the pandemic. This will be reported as part of the NNDR 1 Non-Domestic Rating Return to be submitted to DLUHC. This is an important part of the council's budget planning process. It is requested that the Chief Finance Officer is given delegated approval to certify and submit this return.

5.2. In 2022/23 Salford is expected to continue to be part of the 100% rates retention pilot scheme that operates across Greater Manchester.

6. Recommendation

6.1. It is recommended that the £6.424m second year allocation of the phased 2020/21 estimated deficit to preceptors' general funds in 2022/23 be noted.

6.2. It is recommended that a £12.244m deficit be declared on the fund (Business rates) as at 31st March 2022. This will result in the following contributions being required in 2022/23:

Organisation	**£m**
Salford City Council	12.122
GMCA (fire and rescue functions)	0.122
Total	**12.244**

6.3. That it be noted that the £13.818m adverse variance for retail relief and nursery discount that contributed towards the fund being in a deficit rather than surplus position will be covered by government funding.

6.4. That delegated approval be granted to the Chief Finance Officer to approve the business rates estimate for 2022/23 and to notify the respective amounts to be distributed to the council and GMCA (in relation to their fire and rescue functions).

Joanne Hardman
Chief Finance Officer

KEY COUNCIL POLICIES: Budget Strategy

ASSESSMENT OF RISK: Medium – it is the ninth year of the BRRS and fifth of the 100% rates retention pilot. The potential cost of outstanding appeals is still an extremely volatile area and could continue to have a substantial impact on the ultimate balance. However, some detailed historical evidence has been gathered which does provide some reassurance as to the accuracy of certain assumptions made in the estimate. The Collection Fund will continue to be closely monitored during the year and will be reviewed at outturn 2021/22. The difference between the actual surplus or deficit at that stage will be factored into future estimated balance calculations.

LEGAL IMPLICATIONS: Supplied by: Nicky Smith, Senior Solicitor

The Local Government Finance Act 1988 (as amended by the Local Government Finance Act 2012) provides for the operation of the non-domestic rates retention system through the Council's Collection Fund. In that regard, the Non-Domestic Rating (Rates Retention) Regulations 2013 provide for the calculation of the surplus or deficit. The amount is to be estimated by 31st January in the preceding year and is to be apportioned in accordance with the provisions of the relevant legislation and, in the Council's case, the 100% non-domestic rates retention pilot.

As explained in the main body of the report, the Local Authorities (Collection Fund: Surplus and Deficits) (Coronavirus) (England) Regulations 2020 implemented an announcement by the Secretary of State in July 2020 that the repayment of collection fund deficits arising in 2020-21 would be spread over the next 3 years rather than the usual period of a year, giving councils breathing space in setting budgets. The Regulations therefore allow authorities to spread the estimated deficit on the 2020-21 collection fund over the 3 years 2021-22 to 2023-24. The regulations set out in detail how calculations are to be made in each of the 3 years. There is no provision in the regulations to allow authorities to opt out of the deficit phasing, or to adopt a different payment profile, so it is important that the Council complies with the requirements of the regulations.

FINANCIAL IMPLICATIONS: Supplied by: Chris Hesketh, Head of Financial Management

Financial implications are described in the main body of the report. The council's draft budget and medium term financial strategy are currently being updated to reflect the implications of the calculations and will be reported through the 2022/23 planning cycle.

PROCUREMENT IMPLICATIONS: N/A

Not Applicable

HR IMPLICATIONS: N/A

Not Applicable

OTHER DIRECTORATES CONSULTED:

Not Applicable

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WARD(S) TO WHICH REPORT RELATE (S): All