

Report of the Strategic Director Corporate Resources to the meeting of the Corporate Overview & Scrutiny Committee to be held on 7 January 2021

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Subject:

Business Rate Collection

Summary statement:

This annual collection report would, under normal circumstances, be a review of Business Rate collection in 2019/20. However, this has become less relevant in light of the current situation. Some of the Government's responses to COVID 19 have created difficult trading conditions for many businesses; making collection even more challenging during 2020/21.

This report sets out the Council's performance in, and the challenges for, the collection of Business Rates; the challenges and impact of Government's response to COVID 19; and the Council's response to these new challenges

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Overview & Scrutiny Area:

Corporate

1. SUMMARY

- 1.1. This annual collection report would, under normal circumstances, be a review of council Business Rate collection in 2019/20. However, this has become less relevant in light of the current situation. Some of the Government's responses to COVID 19 have created difficult trading conditions for many businesses; making collection even more challenging during 2020/21.
- 1.2. This report sets out the Council's performance in, and the challenges for, the collection of Business Rates; the challenges and impact of Government's response to COVID 19; and the Council's response to these new challenges

2. BACKGROUND

- 2.1. Business Rates are set by Government. The Rateable Value of business properties across the district are determined by the Valuation Office Agency - an Executive Agency of Her Majesty's Revenue and Customs.
- 2.2. It is the Council's responsibility to issue Business Rate bills, collect monies invoiced and to implement a number of nationally and locally defined schemes to help local business with their rates bill. There are approximately 19,500 Business Rate bills issued; and once exemptions and reliefs are applied, the actual number of accounts to be collected reduces to around 11,000.
- 2.3. Business Rates have always been an important source of income for local authorities, but this importance increased in 2013 when the government partially localised the system; through which, the Council retains 49% of business rates collected, 50% is paid to central government, and 1% is paid to the West Yorkshire Fire Authority.
- 2.4. The importance of Business Rates will grow as Government makes progress towards establishing a system that is completely localised. In 2018/19, the Council was part of a rate retention pilot (comprising the five West Yorkshire Local Authorities, York and Harrogate), and a similar pilot scheme in 2019/20 which included all the North Yorkshire authorities.
- 2.5. In response to COVID 19, the Government has placed various restrictions on businesses since March 2020. These restrictions have impacted directly and indirectly on the ability of businesses to operate and trade. To support businesses, a number of relief and grant schemes have been introduced.
- 2.6. The scale of the Government's businesses support grant schemes, and the urgency with which they needed to be awarded, meant that all of the business rates team were dedicated to administering the grants between April and October; paying almost 11,000 grants totalling £124m to businesses across the district.
- 2.7. This report sets out the Council's performance in, and the challenges for, the collection of Business Rates; the challenges and impact of Government's response to COVID 19; and the Council's response to these new challenges.

3. OTHER CONSIDERATIONS

- 3.1. The key measure of performance is the “in-year” collection rate; that is, the amount of business rates collected in the year for which it was raised. Whilst this is used nationally to compare the Council’s performance, it takes no account of the differing socio-economic demographics of each area. More important is the eventual collection level, although this figure is not widely reported.
- 3.2. Comparing collection figures and collection rates with previous years should be treated with caution. There are a number of factors that can affect both the amount to be collected and the amount collected not only in the current year, but also across previous years:
 - New developments and business closures will affect the amount of business rates charged. Consequently, the amount to be collected at the start of a year is likely to be a different amount than at the end of the year
 - Successful appeals against rateable values will reduce, in year, the amount of business rates to be collected; and, if backdated, will affect previous years ‘to be collected’ figure
 - The variable introduction, reduction and closure of business rate support schemes affects the amount to be collected in each year; i.e. discount schemes, singly and collectively, will help improve the collection rate
- 3.3. Table 1 provides an analysis of collection. It shows the in-year collection rate, the collection rate at the end of October, and the amount to be collected, for the each of the years in which the business rates were raised. While all businesses rates that can be collected will be collected over time, increasing in-year collection improves the Council’s cash flow. As can be seen, the in-year collection rate has shown sustained year-on-year improvement up to 2019/20.
- 3.4. COVID 19 and Government restrictions since March have made trading conditions extremely difficult for many businesses. The Council always aims to support businesses when they are facing financial difficulties. Consequently, a softer approach to collection has been taken this year. Many businesses have been contacted to discuss their arrears, but no formal action has been taken for late payment. As expected, there was a dip in in-year collection in 2019/20, even though collection at the end of October was up on previous years, and this trend has continued during 2020/21. As trading conditions and the local economic position improve, the Council will make arrangements with businesses for the payment of any outstanding amount.
- 3.5. It should be noted that the courts were closed during much of 2020. However, even if the Council had access to the courts to issue liability orders, doing so during this period would, in many cases, likely have been counter productive; possibly resulting in the loss of jobs and the closure of businesses rather than collecting unpaid rates.

	Business Rates to be collected £000	Amount collected in year £000	In year collection rate	Collection Rate at 31 Oct
2016/17	£148,989	£144,537	97.01%	61.96%
2017/18	£140,753	£137,270	97.53%	63.07%
2018/19	£140,869	£137,973	97.94%	63.17%
2019/20	£141,457	£137,359	97.54%	63.45%
2020/21	£85,689	£51,631	-	60.25%

Table 1

- 3.6. Because of the financial difficulties faced by businesses, the Government introduced the Extended Retail Discount Scheme and the Nursery Discount Scheme to help reduce the financial burden on them; so that eligible businesses would have no rates to pay for 2020/21. This had the effect of significantly reducing the amount to be collected to £85m compared to £141m in 2019/20. Details of the relief schemes are provided in section 3.18.
- 3.7. The calculation of business rate arrears is quite complex. For example, some or all of an 'outstanding debt' can be negated by a successful appeal. This could mean the Council having to make refunds, backdated over a number of years. This impacts not only debt collection, but also on the Council's budget position. Consequently, the Council makes provision for this in its Budget process.
- 3.8. On-going collection efforts ensure that all the business rates that can be collected are collected - although it can take years to achieve. For example, we still have £176k to collect from 2015/16. The total arrears still being collected from all years is around £6.6m. This is greater than the £4.2m of outstanding debt identified in the 6 February 2020 Collection report; a consequence of the increase in back dated debt for new businesses registrations and the constraints on collection activity.
- 3.9. It is worth noting that the outstanding debt for 2019/20 is around £1m more than would normally be expected. This is a consequence of previously 'unknown' businesses registering for business rates in order to take advantage of the Government's business support grant schemes, and constraints on collection activity as already highlighted. Details of the grant schemes and their impact on the work of the business rates team are covered in more detail in section 3.21.
- 3.10. A business that has been in occupation for a period before it is registered for business rates will have the bill backdated to the date of first occupation. In cases where such a business registers early in the new financial year, a debt is created for the previous year, adding to the outstanding debt for that year. This happens every year to some extent.
- 3.11. However, the number of businesses registering from late March into April and May, in order to take advantage of the Government's grant schemes, increased significantly; and in doing so, created a larger debt for 2019/20 than would normally be expected; as well as saying larger units were in multiple occupation where previously they had paid rent & rates inclusive .

- 3.12. The majority of businesses do pay their charge as billed. However, where non-payment does occur, prompt enforcement action is taken in accordance with the Council's collection policies; as detailed in the 6 February 2020 Collection report to this Committee.
- 3.13. The collection procedure is designed to maximise income, but is flexible enough to assist businesses with short term difficulties. However, some businesses will be made bankrupt or wound up through this process. Where assets are not sufficient to clear the debt, it must be 'written-off'. These debts can be considerable.
- 3.14. As at October 2020, just over £313k was written off as uncollectable debt. A relatively small sum compared to previous years – the last collection report indicated that around £1.5m had been written off by December in 2019. This is due to the closure of the courts and the cessation of Enforcement Agent activity for much of 2020. This meant that fewer businesses were challenged about their ability to pay, and prevented enforcement or insolvency action from being taken.
- 3.15. Whilst the collection of income to the council is important, maintaining and growing the tax base is even more critical; made more so by the Government's intention to increase rates retention for Local Authorities. The Council was part of the 2018/19 Leeds City Region rate retention pilot; and part of a wider pilot scheme, in 2019/20, which included all the North Yorkshire authorities.
- 3.16. In 2015, Government committed to increasing rate retention to 100%. The current Government's policy is now to move to 75% rate retention. In April 2020, the Government announced that it would suspend the implementation of "...the planned increase to 75% business rates retention in 2021/22 to allow councils to focus on meeting the immediate public health challenge posed by the pandemic."

Support for Business

- 3.17. The Government has introduced various financial support schemes to help businesses affected by restrictions imposed in response to COVID 19. The three largest schemes administered by the Council, and the impact they have had on business rates administration, are outlined in this section: the Expanded Retail discount scheme, the Small Business Grant Fund scheme and the retail, Hospitality and Leisure Grant Fund scheme.

Expanded Retail Discount

- 3.18. The Government introduced the Expanded Retail Discount (ERD) scheme to help support businesses affected by national and local restrictions applied to businesses. The scheme provides a discount for eligible businesses so that they have no business rates to pay for 2020/21. A similar support scheme has also been introduced to support eligible nurseries; so that they also will have no business rates to pay in 202/21.
- 3.19. Eligible businesses that benefit from ERD (Appendix 1) are those that are in the Retail, Hospitality or Leisure sector and are wholly or mainly being used:
- as shops, restaurants, cafes, drinking establishments, cinemas and live music venues

- for assembly and leisure
- as hotels, guest & boarding premises and self-catering accommodation

3.20. As at 31 October 2020, there are 2,814 properties that have had the discount applied; totalling £58,4m for the district in 2020/21. In addition, 89 nurseries have received a discount totalling £807k. Table 2 below shows how these discounts have been applied to the different business sectors.

Sector	Rateable Value	Number of Properties	Value of the Discount
Retail	More than £51k	409	£37,827,348
Retail	£15k – £51k	1,073	£13,078,766
Retail	Less than £15k	832	£2,709,786
Hospitality & Leisure	More than £51k	63	£3,047,416
Hospitality & Leisure	Less than £51k	437	£1,771,731
Nursery	-	89	£807,340

Table 2

Business Support Grant Schemes

3.21. Two businesses support schemes that provided grants to eligible businesses were introduced from April 2020. The grant amount received by an eligible business was based on the rateable value. Government felt that the use of business rate criteria was the most effective way to distribute funding quickly:

- Small Business Grant Fund provided grants of £10,000 to eligible businesses in receipt of the Small Business Rate Relief – businesses with a rateable value up to £15,000
- Retail Hospitality & Leisure Grant Fund provided grants, to eligible businesses in these sectors, of £10,000 for businesses with a rateable value up to £15,000 (not in receipt of small business rate relief), and a grant of £25,000 for businesses with a rateable value of between £15,000 and £51,000

3.22. The Council wrote to businesses in March urging them to ensure details held by the Council were up to date in advance of the launch of the scheme. The Council was able to pay £20m to businesses on 1 April, the first day of the scheme. The schemes closed 28 August 2020.

3.23. In total, the two schemes provided grants to more than 10,900 businesses across the district; with grant payments totalling in excess of £124m. Other, Council administered, grant schemes have also been introduced to help businesses. These are outlined in Appendix 2.

3.24. These schemes were introduced at very short notice, and the volume of work generated by the demand for these grants, and the speed at which they had to be distributed, was considerable. To manage the demand for processing the grants, business rate officers, and others, worked overtime and weekends; including the Easter bank holiday.

3.25. To illustrate, Table 3 below shows the increase in telephone contact and the incoming workload – such as updating business details. There were 9,476 telephone calls received in April 2020 compared to 1,068 at the same time in 2019; almost a 900% increase. There were 13,351 pieces of work received in April 2020

compared to 3,083 at the same time in 2019; an increase of well over 400%.

	Telephone calls		Incoming Work	
	2019	2020	2019	2020
March			3,083	6,025
April	1,068	9,476	2,158	13,351
May	1,408	6,362	2,355	6,063
June	1,106	3,073	2,235	6,857
July	1,101	1,074	2,724	2,624
August	960	888	2,000	2,571
September	949	808	2,407	1,902
October	966	701	2,591	1,668

Table 3

Future Challenges

Revaluation

- 3.26. Historically, non-domestic properties have been re-valued every five years; the most recent revaluation came into effect in 2017. The rateable value of some properties can change significantly during this period. When revaluation comes into effect, transitional relief is also provided to limit the change to the amount a business has to pay.
- 3.27. The Government did intend to reduce the period between revaluations, bringing the next revaluation forward to 2021, with subsequent revaluations on a three year cycle thereafter. The Government has announced that due to the pandemic it was no-longer intending to bring the revaluation date forward. The next revaluation is scheduled to take place for April 2022.
- 3.28. Devolution plans for West Yorkshire may well have an impact on future business developments plans.

Digital Taxation

- 3.29. Digital Taxation in 2024 will most likely have an impact but details are not yet available other than the intention to streamline plans for businesses paying up to a £1m in taxation to do so under a single plan; i.e. Corporation Tax; VAT and Business Rates to HMRC.

Local Economic Recovery

- 3.30. As discussed in this report, Government has provided considerable financial support to businesses by way of grants and reliefs during 2020/21. It is not clear what support will be available to business during 2021/22.
- 3.31. The softer approach taken to collection in 2020, and the financial difficulties faced by businesses, has impacted on collection levels; 60.25% as at the end of October compared to 63.45% at the same time in 2019. As the local economy recovers, the in-year collection rate is expected to increase, as will collection of outstanding amounts. While many businesses do not have to pay a rates bill this year, many still do, and there are some businesses that may continue to struggle even as the economy recovers. The Council will work with businesses to make suitable

payment arrangements.

Grant Administration

- 3.32. There will be on-going demand for grant administration for the foreseeable future. The Government has already put further business grant schemes in place to deal with the November lockdown, and for periods when areas are subject to local restrictions as outlined in Appendix 2.

4. FINANCIAL & RESOURCE APPRAISAL

- 4.1. The Council collected 97.54% of the business rates due in 2019/20; collection of arrears will continue. The total amount of business rate arrears, including costs at 31 March 2020 was £7.3m but now stands at £6.6m.
- 4.2. Based on the current position, if collection rates were to remain 3% down this would translate into a £2.5m reduction on in year collection levels from what would otherwise have been anticipated. However, this impact is offset by the provision of funding for business rates relief funding for 2020/21, which means that the at risk element (the amount to be collected) is less than previous levels.
- 4.3. Generally, Bradford's experience has been of receiving less business rates income than anticipated. This has mainly been due to successful appeals against rateable values, leading to a high cost of refunds backdated over a number of years. For example, a successful appeal against the Rateable Value of Automated Teller Machines led to reductions, in some cases, going back more than 10 years. This resulted in approximately £2.6 million being refunded. The Council continues to review the Business Rates appeals provision based on the estimated cost of appeals.
- 4.4. While there has been a lack of growth in the underlying tax base for 2020 and the introduction of the Extended Retail Discount scheme has reduced the in-year collection level, the total of the remaining sum combined with rates relief funding is expected to be similar in value to previous years.

5. RISK MANAGEMENT AND GOVERNANCE ISSUES

- 5.1. Planning for the consequences of successful Business Rate appeals is already built in to the Council's Budget process. Based on previous experience, a prudent approach is being taken when considering the likely impact and scale of appeals; and will be monitored to ensure that the Council's reserves policy continues to meet the Council's financial planning needs.

6. LEGAL APPRAISAL

- 6.1. The Local Government Finance Act 1988 gives authority to the Council, as the Billing Authority, to issue Billing notices for, and the collection of, Business Rates.

7. OTHER IMPLICATIONS

7.1 EQUALITY & DIVERSITY

None within the context of this report

7.2 SUSTAINABILITY IMPLICATIONS

The sustainability of local business is linked to the sustainability of the local economy and of communities. Rate relief schemes help to support the sustainability and growth opportunities of small businesses.

7.3 GREENHOUSE GAS EMISSIONS IMPACTS

None within the context of this report

7.4 COMMUNITY SAFETY IMPLICATIONS

None within the context of this report

7.5 HUMAN RIGHTS ACT

None within the context of this report

7.6 TRADE UNION

None

7.7 WARD IMPLICATIONS

None within the context of this report

7.8 AREA COMMITTEE ACTION PLAN IMPLICATIONS (for reports to Area Committees only)

N/A

7.9 IMPLICATIONS FOR CORPORATE PARENTING

None

7.10 ISSUES ARISING FROM PRIVACY IMPACT ASSESMENT

N/A

8. NOT FOR PUBLICATION DOCUMENTS

None

9. OPTIONS

N/A

10. RECOMMENDATIONS

- That this committee notes, and gives its view on, progress in the collection of Business Rates

11. APPENDICES

- Appendix 1: Expanded Retail Discount Scheme

- Appendix 2: Council Administered Business Support Grant Schemes 2020/21

12. BACKGROUND DOCUMENTS

- Local Government Finance Act 1988
- Corporate Overview & Scrutiny Committee Report: Business Rate Collection, 6 February 2020
- Reviewing and reforming local government finance: House of Commons Library, Briefing Paper Number 07538, 3 August 2020
- Written Statement to the House of Commons, WS220 2019/21, 29 April 2020

Expanded Retail Scheme

The properties that benefit from the relief will be open to visiting members of the public, and be wholly or mainly being used:

- a. as shops, restaurants, cafes, drinking establishments, cinemas and live music venues
- b. for assembly and leisure; or
- c. as hotels, guest & boarding premises and self-catering accommodation

The list of properties/businesses that can receive relief under the scheme set out below is indicative – it is not possible to list the many and varied uses that exist within the qualifying purposes.

Shops, restaurants, cafes, drinking establishments, cinemas and live music venues means:

- Shops (such as: florists, bakers, butchers, grocers, greengrocers, jewellers, stationers, off licences, chemists, newsagents, hardware stores, supermarkets, etc.)
- Charity shops, Opticians, Post offices, Furnishing shops/ display rooms
- Car/caravan show rooms, Second-hand car lots
- Markets, Petrol stations, Garden centres, Art galleries (where art is for sale/hire)
- Hair and beauty services (such as: hair dressers, nail bars, beauty salons, tanning shops, etc.)
- Shoe repairs/key cutting, Travel agents, Ticket offices e.g. for theatre, Dry cleaners, Launderettes, PC/TV/domestic appliance repair
- Funeral directors, Photo processing
- Tool hire, Car hire, Employment agencies, Estate agents and letting agents, Betting shops
- Restaurants, Takeaways, Sandwich shops
- Coffee shops, Pubs, Bars
- Cinemas, live music venues
- Sports grounds and clubs, Sport and leisure facilities, Gyms
- Wellness centres, spas, massage parlours
- Museums and art galleries, Stately homes and historic houses, Tourist attractions
- Theatres, Nightclubs, Casinos, gambling clubs and bingo halls

Assembly of visiting members of the public means:

- Public halls
- Clubhouses
- clubs and institutions

Used for the provision of living accommodation as a business:

- Hotels, Guest and Boarding Houses, Holiday homes, Caravan parks and sites

Property/businesses not eligible for the scheme are:

- Financial services (e.g. banks, building societies, cash points, bureaux de change, short-term loan providers)
- Medical services (e.g. vets, dentists, doctors, osteopaths, chiropractors)
- Professional services (e.g. solicitors, accountants, insurance agents/ financial advisers)
- Post office sorting offices
- Property not reasonably accessible to visiting members of the public

Council Administered Business Support Grant Schemes 2020/21

The Local Authority Discount Grant Fund

This was a locally define scheme to support eligible businesses that do not have a business rate liability of their own. This scheme closed 28 August.

Support for businesses during periods of local restrictions

Local Restrictions Support Grant (Closed)

- LRSG (Closed) provides grants to businesses in the highest band of local restrictions – Local COVID Alert Level 3 (Very High) – which have been required to close during periods of local restrictions.
- Funding of up to £3,000 per 28-day period is available. During the period of national restrictions this grant is superseded by Local Restrictions Support Grant (Closed) Addendum.

Local Restrictions Support Grant (Open)

- Where local authorities have been subject to Local COVID Alert Level High and / or Local COVID Alert Level Very High restrictions, this grant allows local authorities to make discretionary payments to support businesses that were impacted by the restrictions, but not required to close.

Local Restrictions Support Grant (Sector)

- LRSG (Sector) provides grants of up to £3,000 per 28-day period to be made to businesses like nightclubs that were required to close on a national basis since 23 March 2020. It is possible that, as part of future efforts to control the spread of coronavirus, further business property types are closed on an England-wide basis. If so, these businesses will also be eligible for these grants once they have been closed for 14 days.
- The LRSG (Sector) scheme is effective from 1 November 2020.

Support for businesses during the national restriction period, 5 November to 2 December 2020

LRSG (Closed) Addendum grant

- Businesses required to close due to national 'lockdown' restrictions will receive grants of up to £3,000 per 28-day period under the LRSG (Closed) Addendum, an extension of the LRSG (Closed) scheme.

Additional Restrictions Grant (ARG)

- The Additional Restrictions Grant (ARG) provides additional funding for local authorities in areas with Local COVID Alert Level Very High, to support businesses that have had their trade affected by the restrictions. This includes:
 - closed businesses that don't pay business rates
 - businesses that have not been required to close, but are still severely impacted
- Each local authority has the discretion to establish business grant schemes or other business support as best fits their area.