

Report of the Strategic Director Corporate Resources to the meeting of the Corporate Overview & Scrutiny Committee to be held on 10 February 2022

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Subject:

Business Rate Collection

Summary statement:

The impact of the pandemic on trading conditions for local businesses, and the added pressure on the Business Rates service resources to administer the Government's business support grants, has made 2021/22 the most difficult year ever for the collection of business rates.

This report sets out the Council's performance in, and the challenges for, the collection of Business Rates. The report also considers the impact of changes to the business rates system recently announced by Government.

EQUALITY & DIVERSITY:

There are no Equality and Diversity issues for the Council arising from this report

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Overview & Scrutiny Area:

Corporate

1. SUMMARY

- 1.1. The impact of the pandemic on trading conditions for local businesses, and the added pressure on the Business Rates service resources to administer the Government's business support grants, has made 2021/22 the most difficult year ever for the collection of business rates.
- 1.2. This report sets out the Council's performance in, and the challenges for, the collection of Business Rates. The report also considers the impact of changes to the business rates system recently announced by Government.

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. In 2013 the government partially localised the business rates system; the Council retains 49% of business rates collected, 50% is paid to central government, and 1% is paid to the West Yorkshire Fire Authority.
- 2.3. 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 8,500.
- 2.4. The Covid 19 pandemic, and the Government's responses to it from March 2020, have impacted directly and indirectly on the ability of businesses to operate and trade; with many businesses being forced to close intermittently, or limit their activities, until Government restrictions were gradually lifted during 2021. Government support during this period was provided through a series of grant and relief schemes for affected, eligible, businesses classed as Nurseries or in the Retail Hospitality or Leisure sector.
- 2.5. The Council suspended formal recovery action during 2020 and 2021 because access to the courts was limited and Business Rates Officers were reassigned to administering the Government's business support grant schemes. Not all businesses were supported by the government support schemes and some had full business rates to pay. The courts were partially closed for much of this time and were only dealing with urgent matters, but even had the courts remained fully open, pursuing unpaid business rates could have resulted in the closure of businesses rather than collecting unpaid rates.
- 2.6. Payment of business support grants continued until the end of July 2021. Collection and recovery procedures were not restarted until August 2021 to both allow businesses time to restart their businesses and to ensure that court time was available.

- 2.7. The final report of the Government's review of the role, function and operation of the business rates system was published alongside the Budget on 27 October 2021. The review reaffirmed the importance of business rates and their central role in the tax system. However, the review also identified the need for changes to improve the system, and a roadmap of when the proposed changes are expected to be made has been set out.
- 2.8. This report sets out the Council's performance in, and the challenges for, the collection of Business Rates; and considers the local impacts of the Government's proposed changes to the business rate system.

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. While all businesses rates that can be collected will be collected over time, increasing in-year collection improves the Council's cash flow.
- 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 introduction, reduction and closure of business rate support schemes affects the amount to be collected in each year
 - There was no proactive collection activity in 2020/21 due to the pandemic and the Business Rates Team was fully occupied in processing grant payments. The impact of this maybe seen for a few years to come in the amount of arrears recovered and the impact on the overall collection rate
- 3.3. As part of its response to the pandemic, the Government introduced the Expanded Retail Discount (ERD) scheme and the Nursery Discount scheme to help mitigate the impact of restrictions and limitations on the ability to operate and trade. Details of these schemes for 2020/2021 were provided in the previous report to this committee (7 January 2021)
- 3.4. In 2020/21, the ERD scheme provided eligible businesses with a 100% discount on their business rates bill, so that they had nothing to pay for that year. The scheme was continued for 2021/22, although the amount of relief was less than in the previous year. Eligible businesses received 100% discount on their business rates bill for three months to 30 June 2021, with the discount then reduced to 66% for the remainder of the year.

- 3.5. As a consequence of the ERD scheme, the Council had significantly less business rates to collect during 2020/21 and 2021/22 than in previous years, as can be seen in column A in Table 1 (below). It is important to note that the Council is reimbursed 100% for the cost of the relief schemes; as is the case for all other Government rate relief schemes.
- 3.6. Column D in the table shows the collection rates as at the end of December for each of the last five years. While most of those with businesses rates to pay did so as billed during 2020/21 and 2021/22, however, some did not. Collection and recovery action was delayed for part of this period, which has resulted in a lower collection rate for this period than in previous years. Even under 'normal' conditions, some business do not pay as billed and require further collection and recovery action, but it is now likely that some businesses have chosen not to pay their bill in order to maintain their financial stability, and others simply could not afford to pay due to difficult trading conditions.
- 3.7. The Council always aims to support businesses when they are facing financial difficulties. Consequently, a softer approach to collection has been taken; many businesses have been contacted to discuss their arrears, but no formal action was taken for late payment between March 2020 and July 2021.
- 3.8. Formal collection and recovery action was resumed in August 2021, but recovery action is still a last resort. In the case of those businesses that are genuinely struggling to pay their arrears, the Council endeavours to make appropriate repayment arrangements with businesses. The collection rate as at the end of December 2021 (Column D) is an improvement over the previous year, but is still lower than in the years before the pandemic. Similarly, while the in-year collection rate for 2021/22 (column C) is expected to be better than in 2020/21, it is likely to be less than previous years.

	A	B	C	D
	Business Rates to be collected £000	Amount collected in year £000	In year collection rate	Collection Rate at 31 Dec
2017/18	£140,753	£137,270	97.53%	78.93%
2018/19	£140,869	£137,973	97.94%	79.03%
2019/20	£141,457	£137,359	97.54%	79.03%
2020/21	£85,689	£77,403	90.33%	66.79%
2021/22	£117,269	-	-	75.10%

Table 1

- 3.9. 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.
- 3.10. 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 around £250k to collect from 2016/17, which continues to be collected through

agreed repayment arrangements. As at December 2021, the total arrears still being collected from all years is around £8.7m. This is significant increase over the £4.2m of outstanding debt identified in the 6 February 2020 Collection report; and reflects the impact of suspending formal recovery procedures between March 2020 and August 2021 and being unable to access the courts for much of 2020.

- 3.11. It is likely that some businesses withheld payment of their business rates to provide themselves with a degree of financial security, while others will not have been in a position to pay. The time taken to reduce the arrears, now the formal collection and recovery has restarted, will largely depend upon the rate of local economic recovery and improvement in the financial stability of individual businesses.
- 3.12. The Council's 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.
- 3.13. As at December 2021, just over £459k was written off as uncollectable debt; with just £367k written off for the whole of 2020/21. These are relatively small sums compared to previous years – in 2019/20, £2.12m was written off. As explained in the February 2021 collection report, being unable to access the courts and the suspension of Enforcement Agent activity for much of 2020 and 2021 meant that fewer businesses could be challenged about their ability to pay, and prevented enforcement or insolvency action from being taken.

Government support for businesses impacted by Covid

- 3.14. The Government introduced a number of grant schemes to support businesses affected by restrictions imposed in response to COVID 19 during 2020/21 and 2021/22. These schemes, administered by the Council, were tailored to different businesses and circumstances, and are set out in Appendix 1. To date, just over £222m in grants have been paid to support local businesses.
- 3.15. As described in 3.3, the government introduced the Expanded Retail Discount Scheme, which provided a 100% business rate reduction for eligible businesses in 2020/21, and a 100% reduction for three months, followed by a 66% reduction for the remainder of the year in 2021/22. Government has announced the introduction of a new relief in 2022/23 for eligible retail, hospitality and leisure properties. The scheme provides 50% relief on rates bills up to £110,000 per business.
- 3.16. Business rate bills are calculated by multiplying the rateable value of a property with a multiplier set by Government. The multiplier increases year on year to off-set the effect of inflation. The government froze the business rate multiplier in 2021/22, and has now announced that the business rates multiplier will also be frozen in 2022/23.
- 3.17. In March 2021 the Government announced a new Covid-19 Additional Relief Fund (CARF) to support rate paying businesses affected by the pandemic during 2021/22 and have been unable to benefit from the existing business rates relief for retail, hospitality and leisure businesses. The Government recently provided guidance to enable Billing Authorities and the Council is currently developing a local scheme for the Bradford District.

Future Developments

Revaluation

- 3.18. 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 five-year period. When revaluation comes into effect, transitional relief is also provided to limit the change to the amount a business has to pay.
- 3.19. The Chancellor, in his Budget Statement (27 October 2021) confirmed that, because of delays due to Covid, the next revaluation is now scheduled to come into effect from April 2023; and that legislation would be introduced to put revaluations on a three-year cycle thereafter. It was also confirmed that the current transitional relief scheme, which limits the impact of changes to the rateable value of the 2017 revaluation, will also be extended by 12 months because of the delay.

Business Rates Review

- 3.20. The Government has undertaken a fundamental review of the Business Rates system and operation. The review concluded that a tax on the use and value of commercial property remains an important part of a balanced business tax system alongside taxes on profit and consumption, and that there is no merit in a radical overhaul. The review, did however, identify opportunities for improvement.
- 3.21. As well as confirming the need for more frequent revaluations, the review identified the need to increase transparency and the quality of information provided to the Valuation Office Agency (VOA), support property investment and improvement, support net zero, and builds on previous proposals for the digitalisation of business rates. A summary of Government's proposals is set out below.

More frequent (3-yearly) revaluations

- £0.5 billion for the Valuation Office Agency (VOA) as part of the Spending Review, including funding for important changes to upgrade VOA IT infrastructure and digital capabilities. Additional funding is also being provided for the new reform measures supporting the move to a more frequent revaluations cycle
- The gaps between revaluations mean that businesses bills are often based on rateable values that they might consider out of date, and that transitional relief arrangements can exacerbate this, meaning bills often do not accurately reflect property values. A shorter revaluation cycle has significant impacts on the need for and design of the transitional relief scheme. The government will consult on transitional relief arrangements in 2022

Increase transparency and the quality of information provided to the VOA

- Ratepayers will be required to notify the VOA of changes to the occupier or physical property characteristics, and to provide rent and lease information to the VOA, as well as trade information used for valuation
- A compliance regime will be introduced following the introduction of the new

duties. This will include penalties for non-compliance, including provision of false information as well as failure to comply

- The Government will introduce guidance and measures to increase transparency on valuations, including on rating principles, class-specific valuation approach and rental evidence
- Changes will be made to simplify and speed up the appeals process

Supporting property investment and improvement

- The government will introduce a 100% improvement relief, providing 12 months' relief from higher bills for occupiers where eligible improvements to an existing property increase the rateable value. This will support businesses to make improvements to their property such as adding more rooms to a hotel, expanding a factory, or installing CCTV or bike sheds. The government will consult on how to implement this relief, which will take effect in 2023 and be reviewed in 2028

Supporting net zero

- The government will introduce an exemption for eligible plant and machinery used in onsite renewable energy generation and storage, such as rooftop solar panels and battery storage used with renewables and electric vehicle charging points, from 2023 until 2035. A 100% relief will also be provided for eligible low-carbon heat networks that have their own rates bill

Digitalisation of business rates

- Initial work is being undertaken to develop a database for matching business rates data with central HMRC tax data, which will integrate into HMRC's Single Customer Account. The Government says this will allow better oversight of the rates system, more precise targeting of reliefs on the businesses most in need of support, and more effective compliance; and will allow businesses to more easily understand and monitor their tax liability. A further £31 million has been allocated for the development of DBR in the Spending Review

3.22. The report also says that Government is aware of a wide range of views on the idea of an online sales tax and the high level of interest in it; but a decision on whether to proceed has not been made. The government is expected to continue exploring the arguments for and against an online sales tax and will consult further. The report also identified the need to consider and respond to concerns about business rate avoidance and evasion and that further consultation will be undertaken.

3.23. The Government's proposals will see a number of changes for business rates locally over the next 5 or 6 years. There is still significant development work to be done before most of these changes can be implemented. The impact of these changes will be identified in future collection reports to this Committee when they are fully understood. The timeline for the development and implementation of proposed changes is provided in Appendix 2.

Avoidance and Evasion

3.24. The Government has introduced legislation to better hold company Directors to account, The Rating (Coronavirus) and Directors Disqualification (Dissolved Companies). The Act is intended to address the problem of individuals who do not comply with their duties as directors, and who do not act in the best interests of the company, its employees, or its creditors.

- 3.25. For insolvent companies, conduct is investigated by Insolvency officeholders who then report on the conduct of the directors. Where evidence of misconduct is found, a period of disqualification may then be sought. Companies that are dissolved, i.e. request to be struck off struck off the Companies House register, or are struck off for other reasons, e.g. for not filing their accounts, are not subject to the same procedures; an issue the Act seeks to address.
- 3.26. In March 2021, in order to minimise the risk of companies fraudulently avoiding repayment of a bounce-back loan, a blanket objection was entered to any company with an unpaid loan being struck off the register. This has prevented, nationally, more than 50,000 companies from being dissolved.
- 3.27. While the new power to investigate and disqualify former directors of dissolved companies is being introduced primarily to deter wrongful avoidance of repayment of the bounce-back loans, it will also pave the way to seek compensation from disqualified directors guilty of misconduct that has caused loss to others. It will also act as a deterrent to directors who practice Phoenixing, where the debts of one company are dumped using dissolution and a new company starts up doing the same thing.
- 3.28. While any steps to avoid wrong-doing by directors is welcome, experience tells us this just leads to costly legal action, with no guarantees of success. Also, the majority of cases we come across are of such a low value that the insolvency service rarely shows any interest in them, as they focus on much bigger cases.

4. FINANCIAL & RESOURCE APPRAISAL

- 4.1. The Council collected 90.33% of the business rates due in 2020/21; collection of arrears will continue. The total amount of business rate arrears, including costs at 31 March 2021 was £14.6m but now stands at £8.7m.
- 4.2. 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 being higher than provided for, 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.
- 4.3. Lack of growth in the underlying tax base for 2021/22 and the continuation of the Extended Retail Discount scheme has served to reduce both the value of business rates to be collected and to suppress the in-year collection level. However, 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 CHILDREN AND YOUNG PEOPLE

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: Council Administered Business Support Grant Schemes 2020/21
- Appendix 2: Timeline for development and implementation of changes to Business Rates

12. BACKGROUND DOCUMENTS

- Local Government Finance Act 1988
- Corporate Overview & Scrutiny Committee Report: Business Rate Collection, 7 January 2021
- The Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Bill
- Business Rates Review: Final Report, October 2021. ISBN 978-1-911686-25-5 PU 3156
- Housing, Communities and Local Government Committee Oral evidence: Work of the Department 2021, HC 818

Council Administered Business Support Grant Schemes 2020/21

Additional Restrictions Grant (BID)	31/03/2022	Support for BIDs
Additional Restrictions Grant (Self Employed)	31/03/2022	Locally-licensed Taxi Drivers who have been severely impacted by local and/or national restrictions
Additional Restrictions Grant (Closed Tier 3)	31/03/2022	Non-Rateable businesses that have been required to close as part of a national lockdown
Additional Restrictions Grant (Closed National Lockdown 3)	31/03/2022	Non-Rateable businesses that have been required to close as part of a national lockdown
Additional Restrictions Grant (Closed National Lockdown 2)	31/03/2022	Non-Rateable businesses that have been required to close as part of a national lockdown
Additional Restrictions Grant (Closed National Lockdown 3 Extension Feb-Mar)	31/03/2022	Non-Rateable businesses that have been required to close as part of a national lockdown
Additional Restrictions Grant (Homebased)	31/03/2022	Non-Rateable Home based, mobile business/freelance businesses working in/for hospitality, leisure, entertainment sectors.
Additional Restrictions Grant (Membership Subsidies)	31/03/2022	Membership Subsidies for Business support organisations
Additional Restrictions Grant (Open Tier 3)	31/03/2022	Non-Rateable businesses that are not legally required to close but are severely impacted by local restrictions
Additional Restrictions Grant (Open Backdated)	31/03/2022	Non-Rateable businesses that are not legally required to close but are severely impacted by local restrictions
Additional Restrictions Grant (Outdoor Trading Grant)	31/03/2022	Supporting businesses with providing facilities to deal with social distancing measures.
Additional Restrictions Grant (Restart Grant)	31/03/2022	Supporting non-rateable businesses with the costs of resuming trade following lockdowns.
Additional Restrictions Grant (Self Employed)	31/03/2022	Rateable and Non-Rateable Sole Traders who are not eligible for HMRC's Self Employment Income Support Scheme
Additional Restrictions Grant (Supply Chain)	31/03/2022	Rateable and Non-Rateable businesses who are in the supply chain and are severely impacted by local and/or national restrictions
Closed Business Lockdown Payment	14/05/2021	Rateable businesses (Hospitality, Accom, Leisure, Sports, Personal, Non Essential) required to close for third national lockdown.
Christmas Support Payment for Wet-Led Pubs	31/03/2021	Rateable Wet-Led Pubs with less than 50% income from food
Discretionary Scheme	30/09/2020	Discretionary Scheme
Local Restrictions Support Grant (Closed Tier 3)	14/05/2021	Rateable businesses (Hospitality, Accom, Leisure) required to close for local Tier 3 restrictions.
Local Restrictions Support Grant (Closed National Lockdown 3)	14/05/2021	Rateable businesses (Hospitality, Accom, Leisure, Sports, Personal, Non Essential) required to close for third national lockdown.
Local Restrictions Support Grant (Closed National Lockdown 2)	14/05/2021	Rateable businesses (Hospitality, Accom, Leisure, Sports, Personal, Non Essential) required to close for second national lockdown.

Local Restrictions Support Grant (Closed National Lockdown 3 Extension Feb-Mar)	30/06/2021	Rateable businesses (Hospitality, Accom, Leisure, Sports, Personal, Non Essential) required to close for third national lockdown.
Local Restrictions Support Grant (Open Tier 3)	14/05/2021	Rateable businesses (Hospitality, Accom, Leisure) not required to close but severely impacted by local restrictions
Local Restrictions Support Grant (Open Backdated)	14/05/2021	Rateable businesses (Hospitality, Accom, Leisure) not required to close but severely impacted by local restrictions
Local Restrictions Support Grant (Open Backdated Top-Up)	14/05/2021	Rateable businesses (Hospitality, Accom, Leisure) not required to close but severely impacted by local restrictions
Restart Grant	30/07/2021	Supporting rateable businesses with the costs of resuming trade following lockdowns.
Retail, Hospitality & Leisure Grant	30/09/2020	Rateable businesses, Retail, Hospitality & Leisure sector
Small Business Grant	30/09/2020	Rateable businesses, Small Businesses

Timeline for development and implementation of changes to Business Rates

	Activity	Subject
2021-22	Consultation	More frequent revaluations
		Multiplier administrative charges
		Investment and improvement reliefs
		Online Sales Tax
2022-23	Legislation	Introduced to enable more frequent revaluations
	Consultation	Digitalising Business Rates
		Avoidance and Evasion
		Transitional Relief
2023-2026	Revaluation	First in the new 3-year revaluation cycle
	Roll-out	Improvement Relief
		Green Plant and Machinery support
		Phase 1 - Transparency
		New duties (on businesses)
2026/7 onwards	Revaluation	Revaluation
	Roll-out	Phase 2 - Transparency
		Phase 1 – Digitalising Business Rates
		Changes to the appeals system