

Finance Sub-Committee

Date of Meeting:	2 March 2022
Report Title:	Business Rates Briefing
Report of:	Alex Thompson, Director of Finance and Customer Service
Report Reference No:	FSC/15/21-22

1. Purpose of Report

- 1.1. This briefing report provides members with an overview of the Business Rates system and its impact on the MTFs. It also provides an update on the Governments proposed review of Business Rates.

2. Executive Summary

- 2.1. Business rates form an essential element of Cheshire East funding contributing £49.1M to the 2021/22 budget. This is equivalent to 15.8% of the Council's net revenue budget,
- 2.2. It is a highly complex area both in terms of how Business Rate liability is calculated and the value of Business Rates to be retained by the Local Authority. This has been further complicated in recent years by a significant extension in the value and range of Business Rates reliefs available to businesses to provide support during the Covid Pandemic and to encourage recovery post Covid.
- 2.3. The Business Rates Team within Customer Services administers all Business Rates billing, collection and debt recovery. The gross level of business rates liability for businesses within the Cheshire East Council area is approximately £180m, across over 15,000 properties. The team liaise with the Department for Levelling Up, Housing and Communities on legislation and guidance for the scheme. The team also work with the Valuation Office Agency to determines appropriate valuation of relevant

non-domestic properties (known as 'hereditaments' for business rate purposes)

- 2.4. The Finance Team administer the Collection Fund, which is a statement within the Council's statutory accounts that records all the transactions associated with the administration of business rates.
- 2.5. Since the onset of the Pandemic the Business Rates team have also administered all mandatory business grants paying over 22,500 individual businesses grants to the value of £146M.
- 2.6. HM Treasury have been conducting a review of the Business Rates Scheme for some time with the final report published in October 2021. The review concluded that the Business Rates Scheme would be retained but that a number of changes would be made to reduce the burden of business rates in England and to increase the frequency of revaluations.
- 2.7. Recently the government have decided not to amend the level of business rates retained by local authorities, instead preferring to review the entire scheme in light of the levelling up agenda.

3. Background

- 3.1. Business Rates (also known as National Non-Domestic Rates or NNDR) is a property tax paid by businesses designed to help fund services delivered by the local authority.
- 3.2. The Business Rates payable by an individual business are primarily set by Central Government based on a "Rateable value" (RV) calculation assessed by the Valuation Office and a "multiplier" of the RV set by Central Government.
- 3.3. Central Government also sets a range of Business Rates "reliefs" for specific businesses both mandatory and at the discretion of the Local Authority.
- 3.4. The billing and collection of Business Rates is the responsibility of the Local Authority with receipts from Business Rates distributed between the Council and its precepting authorities and Central Government.
- 3.5. Business Rates is an essential element of Local Authority funding. The value of Business rates retained by Cheshire East Council as per the MTF5 20/21 was projected to be £49.1M. Identification of new property and efficient collection of Business Rates is therefore important in order to maximise income.

Briefing Information

- 3.6.** Business Rates (also known as National Non-Domestic Rates or NNDR) is a property tax paid by businesses and is calculated according to the Rateable Value (RV) of their business premises.
- 3.7.** RV's are assessed by the Valuation Office Agency (VOA), on a 5 yearly cycle. The assessment is carried out by professional valuers and the calculation of a RV is usually closely related to the commercial rental value for a property. Alternatives to rental value can be used where there is no rental market, such as rebuild costs for a school.
- 3.8.** The amount of rates payable is calculated by multiplying the RV by a 'multiplier' figure which is supplied by Central Government. There are two multipliers which differ according to the RV of a property. The billing and collection of Business Rates is the responsibility of the Local Authority.
- 3.9.** Whilst the gross rates due are calculated by multiplying the RV by the 'multiplier', many businesses benefit from one or more of a number of reliefs or discounts which reduce the amount they pay. In particular, a significant number of small businesses benefit from Small Business Rate Relief which means they pay no rates at all. The table below shows the various reliefs against the total number of rated business properties in Cheshire East.

Table 1: reliefs and total number of rated business properties in Cheshire East:

	Total properties	15,217
Mandatory / Discretionary	Type of relief	No. receiving relief
Mandatory Relief	Small Business Rate Relief	6,478
Mandatory Relief	Tapered Small Business Rate Relief	438
Mandatory Relief	Small Business Relief – 12 month extension	42
Discretionary Relief	Supporting Small Businesses Relief	32
Mandatory Relief	Charity relief – Mandatory	621
Discretionary Relief	Enterprise Zone discount	123
Mandatory Relief	Transitional Relief	642
Mandatory Relief	Transitional Surcharge	37
Discretionary Relief	Non-profit making body Relief	24
Discretionary Relief	Hardship Relief	1

Discretionary Relief	Part-occupied Relief	0
Mandatory Relief	Rural Rate Relief	10
Discretionary Relief	Rural Rate Relief	6
Discretionary Relief	Charity relief – top up	293
Discretionary Relief	Local Newspaper Relief	0
Mandatory Relief	Public Lavatories Relief	12
Mandatory Relief	Community Amateur Sport Club	33
Discretionary Relief	Community Amateur Sport Club – top up	27
Discretionary Relief	Local Discretionary Relief – Localism Act 2011	0
Discretionary Relief	Expanded Retail Discount – 66%	1860
Discretionary Relief	Nursery Discount – 66%	60

3.10. These reliefs have been used extensively throughout the COVID pandemic to support businesses and reduce or remove business rates costs. On 25 March the Government announced a new COVID-19 Additional Relief Fund (CARF) available to support those businesses affected by the pandemic but that are ineligible for existing support linked to business rates.

3.11. Local Authorities will be asked to develop their own discretionary schemes utilising existing powers under Section 47 of the Local Government Finance Act 1988. The proposed CARF Scheme for Cheshire East is currently under development and will be submitted to Finance Sub Committee for approval in March 2022. We will also take this opportunity to refresh our existing discretionary schemes to ensure we provide a consistent and cohesive package of support for local businesses.

3.12. In addition to the changes to reliefs, the number of properties subject to Business Rates and the Total Rateable Value attributable to those properties changes as new and altered properties are assessed. Over the last 5 years the number of properties, Rateable Value and collectible amount have grown until the current year when additional reliefs were introduced as a response to the Covid situation as shown below.

Table 2: increasing number and value of Business Rates

Year	No. of properties	Total Rateable Value	Collectible debit
2017-18	14,044	£349.8M	£145.5M
2018-19	14,532	£353.7M	£146.7M
2019-20	14,782	£354.7M	£147.3M
2020-21	14,948	£356.2M	£148.0M
2021-22	15,217	£354.3M	£122.9M

- 3.13.** Some examples of properties within Cheshire East are set out below to illustrate the relative amounts paid by local businesses and the relevant reliefs applicable to their property:

Shop – Marks & Spencer, Handforth Dean

RV 3,450,000 x .512 = £1,766,400 payable

Pub – Cheshire Cheese, Sandbach

RV 7,500 x .499 = £3742.50

Minus Extended Retail Relief @ 100% Apr – Jun £933.06

Minus Extended Retail Relief @ 66% Jul – Mar £1854.23

£955.21 payable

Factory – Astra Zeneca, Macclesfield

RV 8,510,000 x .512 = £4,357,120 payable

Shop - Lawton Street, Congleton

RV 8,700 x .499 = £4,341.30

Minus Small Business Rate Relief £4341.30

£Nil payable

Scout Hall - Elm Close, Crewe

RV 6,600 x .499 = £3379.20

Minus Mandatory Charitable Relief @ 80% £2703.36

Minus Discretionary Charitable Relief @ 20% £675.84

£Nil payable

Factory - Bentley Motors, Crewe

RV 3,820,000 x 0.512 = £1,955,840 payable

- 3.14. Impact on MTFS** - The Government introduced the business rates retention scheme on 1st April 2013. The basic concept is that a baseline position is established and an element of growth over and above that can be retained locally subject to a levy on that growth (currently 37p per £1).
- 3.15.** There continues to be much uncertainty around the scheme from appeals to the local list. This has resulted in the need to create and build upon a specific earmarked reserve and provision for appeals to protect against large fluctuations in any given year.
- 3.16.** In previous budget cycles, growth estimates above baseline were calculated and the taxbase has been monitored to assess the robustness of those estimates. This proved to be reasonably accurate but then in March 2020, the coronavirus pandemic locked the economy down and businesses were dramatically affected. This affected the in-year performance of business rates for 2020/21 and 2021/22 and is likely to continue to impact over the medium-term.
- 3.17.** Central government use compensation S31 grants to reimburse Local Authorities for the cost of any discounts or exemptions that have been granted since the start of the scheme in April 2013. These are being used in part to support the revenue budget in 2021/22 which took the total business rates retained to £49.1m. The budget has remained static for 2022/23 due to the uncertainties arising from possible changes to the scheme and losses continuing due to the pandemic recovery.
- 3.18.** Compensation grants have played a vital role during the last two financial years to support the loss of rates due to extremely large retail discounts being granted.
- 3.19.** Receipts from businesses are paid into the Collection Fund which is then distributed to all precepting organisations in the following shares - Cheshire East Council (49%), Fire Authority (1%), and Central Government (50%). Any over or under collection against the budget set results in a surplus or deficit on the Collection Fund which can be shared out or has to be repaid in future years.
- 3.20.** The budget for business rates for 2021/22 is set out below. This will not reflect the actual outturn however, as retail discounts have once again been granted in year (after budget setting) which will result in a lower than budget income position (a deficit) but this will be covered in full by compensation grants received for this specific purpose:

Table 3: Budget for Business Rates 2021/22

NNDR1 – January 2021 budget setting position	£m
Gross Rates	179.4
Mandatory Discounts	(23.9)
Unoccupied Properties	(4.6)
Discretionary Discounts	(0.8)
Discretionary Discount where compensation is provided (retail relief announced after budget set)	(0,1)
Bad Debts	(2.2)
Appeals repayable	(3.6)
Disregarded amounts (EZ/renewables)	(1.7)
Administration allowance	(0.6)
Net Rates	142.0
CEC share (49%)	69.6
Fixed Tariff payable to Central Government	(24.7)
Retained Rates	44.9
Contribution from compensation grants	4.2
Retained Business Rates as per MTFS	49.1

- 3.21. The Government’s Business Rates Review:** The Government have increased the number of Business Rates Reliefs available over time in an effort to reduce the burden on business. In addition they have consulted with business stakeholders and other interested parties to consider how this local tax can be taken forward. A review was published in Autumn last year which can be found at [BRR_final.pdf \(publishing.service.gov.uk\)](#).
- 3.22.** In summary, the review found that business rates are a vital component of the business tax mix and will continue in place but with the following revisions:
- A freeze of the multiplier for 2022-23
 - Further Relief available to retail, hospitality, and leisure businesses in 2022-23
 - Support to business through the Levelling Up Fund
 - A move to 3 yearly valuations in order to better reflect the current economic environment and contemporaneous rental values
 - Introduce a rate exemption to encourage renewable energy use in the business sector
 - Continue to explore the arguments for and against an Online Sales Tax

3.23. We await further details of these proposals and the detailed timescale for implementation.

4. Implications

4.1. Legal – None

4.2. Finance – See para 6.7 – 6.13

4.3. Human Resources - None

Access to Information	
Contact Officer:	Helen Gerrard Helen.gerrard@cheshireeast.gov.uk
Appendices:	none
Background Papers:	Business Rates Review - Final Report