Business Rates

Using data from the Value for Money Profiles, October 2013

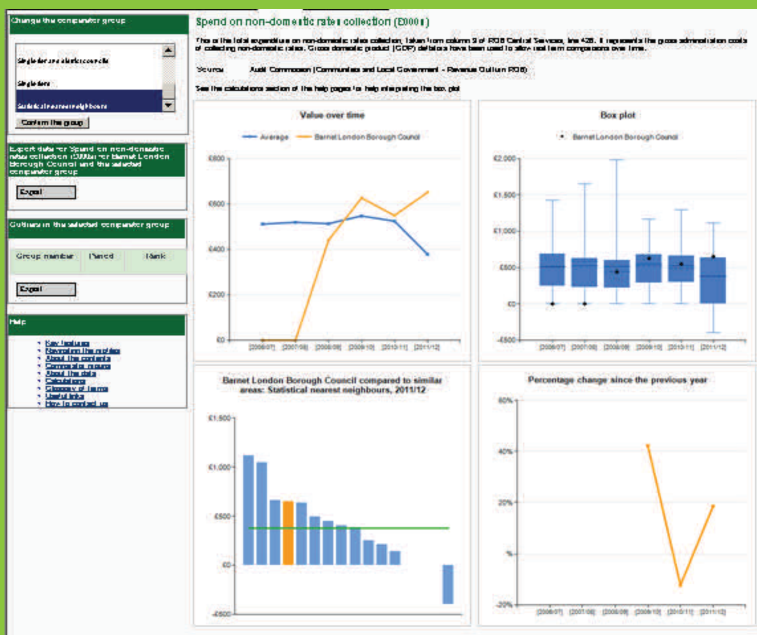
The government is legislating to close the Audit Commission by the end of March 2015 and the Local Audit and Accountability Bill is currently being scrutinised by Parliament. Until it closes, the Commission will continue to make available its Value for Money (VFM) Profiles, which bring together publicly available data about the cost, performance and activity of councils and fire authorities.

To enhance the visibility of its VFM Profiles the Commission is publishing a number of briefing papers presenting new analysis of existing data examining:

- how council spending and activity have changed over time;
- how councils' performance differs; and
- factors affecting variation in councils' activity and costs.

We hope these data briefings will help councillors and senior officers examine and improve their council's performance, and assist the public, auditors and others interested in local government to hold councils to account for their decisions.

This briefing provides an overview of data in the VFM profiles on councils' collection rates and costs for business rates. It also suggests further analyses that could be undertaken by anyone wishing to examine councils' collection rates and costs in more detail.



Screenshot from the Value for Money (VFM) Profiles showing net expenditure on business rates
http://profiles.audit-commission.gov.uk/

Section 1: About business rates

1 Business rates[i] are a local tax paid by businesses occupying property. The money they raise helps to pay for local council services and they represent a substantial part of councils' income.

> **Amount of business rates councils collected in 2012/13**
>
> In 2012/13, councils collected a total of £21.9 billion from businesses.
>
> The amount collected by each council ranged from £1.3 million to £1.6 billion.
>
> *Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013*

2 The 326 district, London borough, metropolitan district and unitary councils in England are called 'billing authorities' and they collect business rates on properties in their area. County councils do not collect business rates.

3 The total amount of business rates a billing authority can collect depends on the number and rateable value of business properties in its area, and also on the amount of relief[ii] it gives.

> **Changes in the number and rateable value of business properties**
>
> Between 2008/09 and 2012/13, the number of business properties in England rose by 4 per cent to over 1.7 million. But their rateable value rose over the same period by 22 per cent to £57.2 billion, which partly reflects revaluations.
>
> *Source: Table 1, DCLG Statistical Release, NDDR Collected by LA s in England, 14 August 2013*

Income from business rates

4 Before April 2013, billing authorities paid all business rates they collected into a 'national pool'. This also included business rates that the government collected in respect of major transport, utility and telecommunications property.

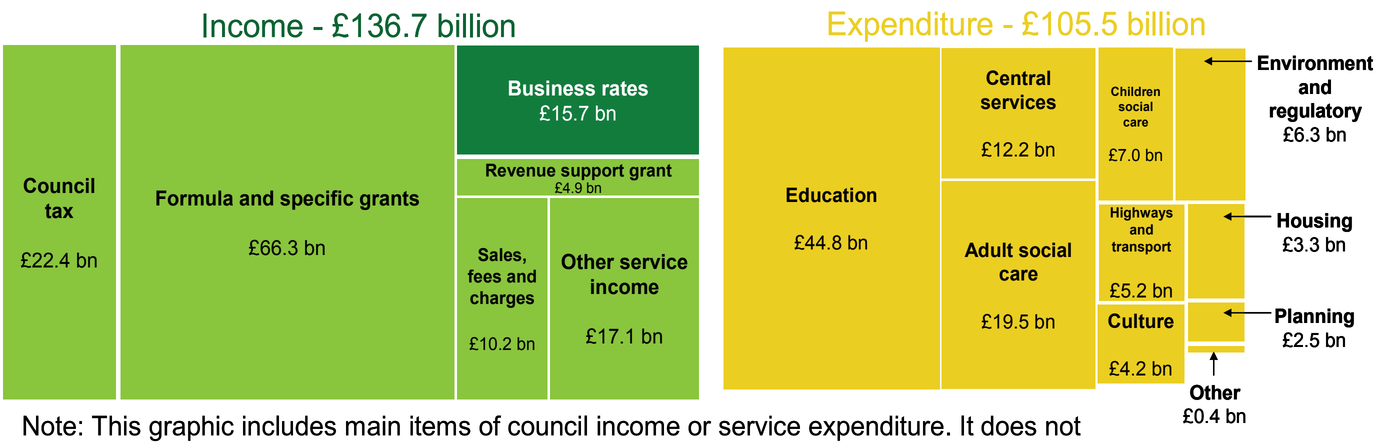
5 The government redistributed the business rates in the 'national pool' to all local authorities - including county councils, police and fire authorities - as part of the annual Local Government Finance Settlement. The amount paid to each council was based on a formula which took account of the size and demographics of the local population.

6 In 2011/12, the government paid £15.7 billion in redistributed business rates to councils (Figure 1). Redistributed business rates represented 11 per cent of councils' total income.

[i] Business rates are formally known as national non-domestic rates

[ii] Councils give a range of business rates relief, for example, for charities and empty properties. See Appendix for more details.

Figure 1: Councils' main sources of income and service expenditure 2011/12



Note: This graphic includes main items of council income or service expenditure. It does not include £24 billion of benefits payments, £3 billion of capital expenditure from the general fund and £5.5 billion of interest and financing.

Source: DCLG, 2011/12 Revenue Outturn Returns

Business rates: important changes

From April 2013, councils keep some of the business rates they collect under a new business rates retention scheme. This briefing provides more information about the new arrangements, and discusses their implications, in Section 5.

Knowing how much business rates they collected and what their collection costs were under the previous arrangements will help councils maximise the benefits of the new arrangements.

Section 2: Collecting business rates

7 In 2012/13, a total of £22.4 billion in business rates was due from businesses after taking account of all relief given by billing authorities. By the end of the year, these councils had collected £21.9 billion, leaving a shortfall of £513 million, which is 2.3 per cent.

8 In 2012/13, the median rate of collection in England was 98 per cent. A total of 156 councils collected less than 98 per cent. Had they reached this level, they would have received an additional £143 million due in that year.

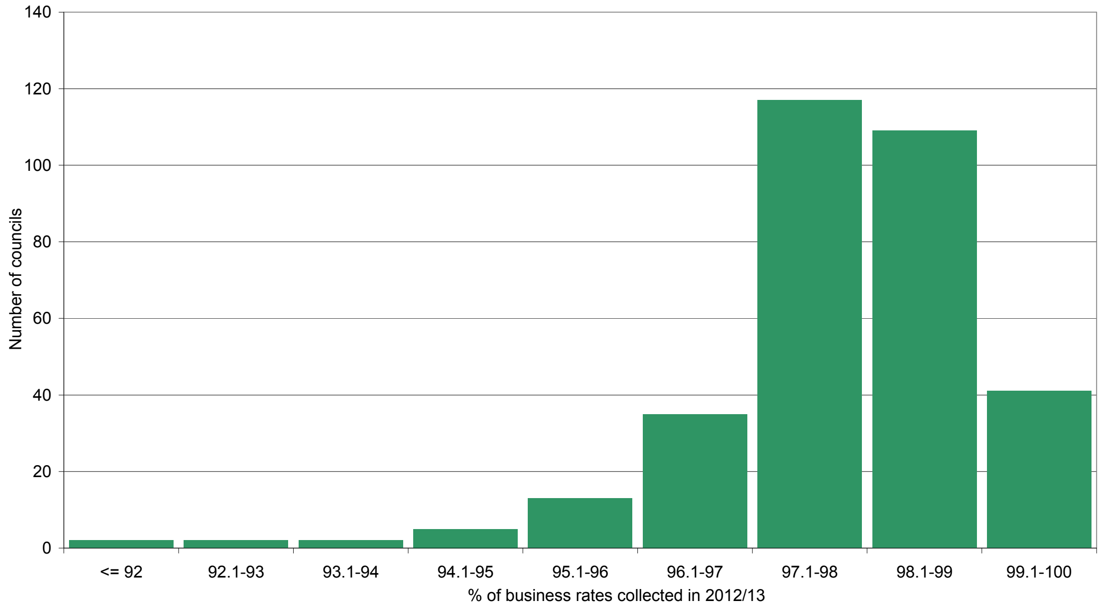
Figure 2: Business rates collection in 2012/13

£22.4 billion	**98%**	**£513 million**
This is the total amount due for 2012/13	The median collection rate for business rates due in 2012/13 across all councils	The amount of 2012/13 business rates that was uncollected at the end of March 2013

Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

9 Figure 3 shows that most councils (82 per cent) collect around or above the median.

Figure 3: Percentage of business rates collected in 2012/13



Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

10 The overall median rate of collection varies both between and within different types of council. By council type, shire district councils had the highest median collection rate (98.2 per cent) and metropolitan district councils the lowest (96.7 per cent).

Figure 4: Collection rates for different types of council in 2012/13

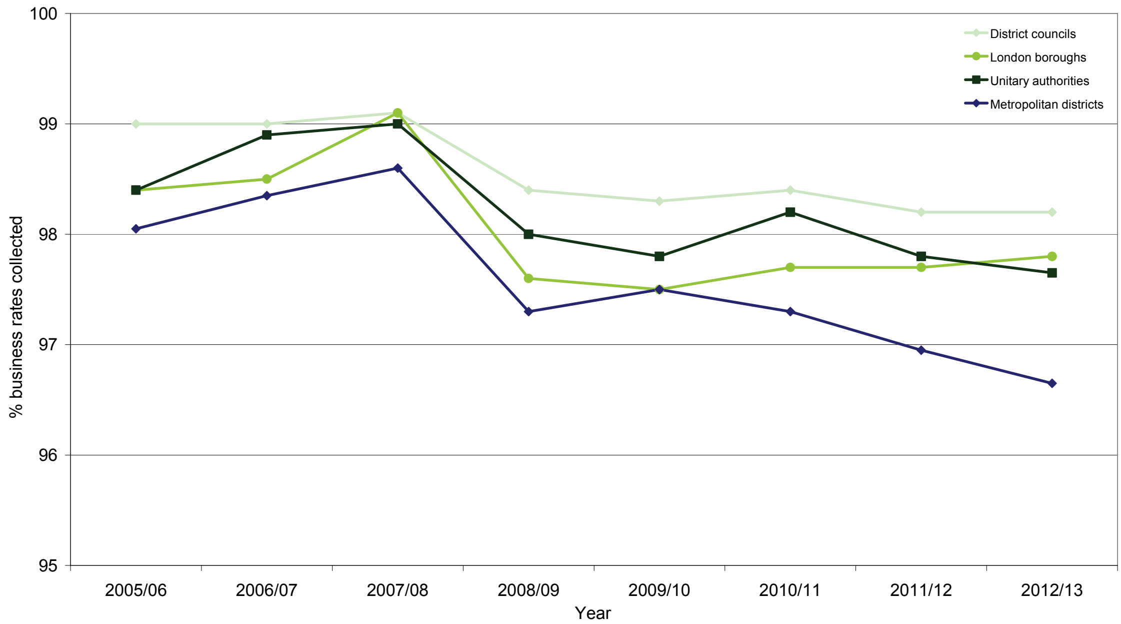
	In-year median collection rate for 2012/13 business rates	% of all councils in each group collecting more than 98% of 2012/13 business rates in-year
District councils	98.2%	55%
Unitary authorities	97.7%	38%
London boroughs	97.8%	42%
Metropolitan districts	96.7%	17%
All councils	98.0%	46%*

** The median figure is not exactly 50 per cent, because 19 councils collected exactly 98 per cent (the median collection rate). The 151 councils that collected more than 98 per cent are less than half of all councils that collect business rates.*

Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

11 Across all types of council, Figure 5 shows that in-year collection rates increased between 2005/06 and 2007/08, but declined after that and have not yet returned to the 2005/06 level. Collection rates are likely to have been affected by the financial crisis, subsequent recession and its related impacts.

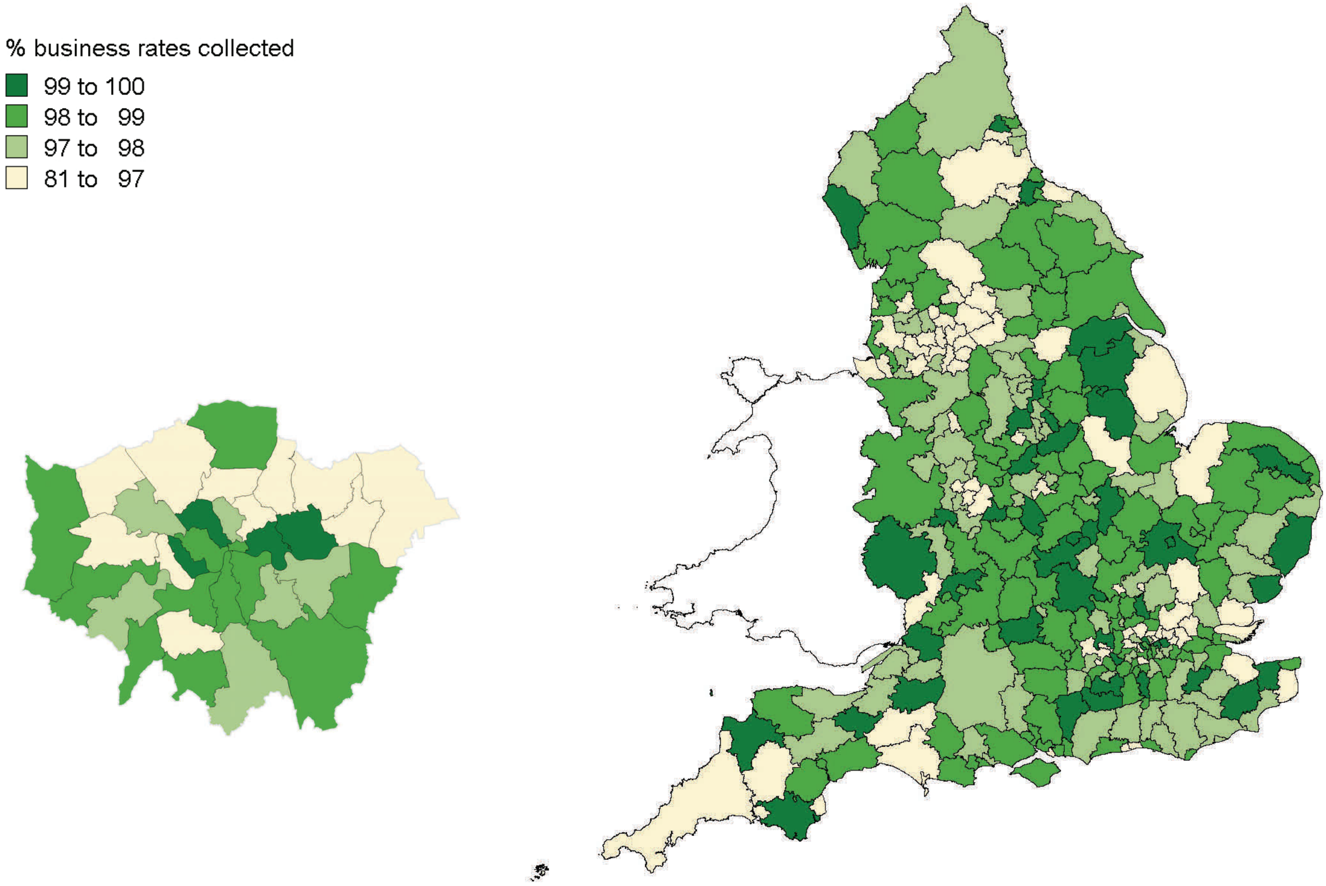
Figure 5: Median in-year collection rates



Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

12 Over the last 8 years, median in-year collection rates have been consistently highest among shire district councils and lowest among metropolitan district councils. Figure 6 shows that the lowest in-year collection rates are found in the north west, where there is a high number of metropolitan districts.

Figure 6: Geographical variation in in-year collection rates 2012/13



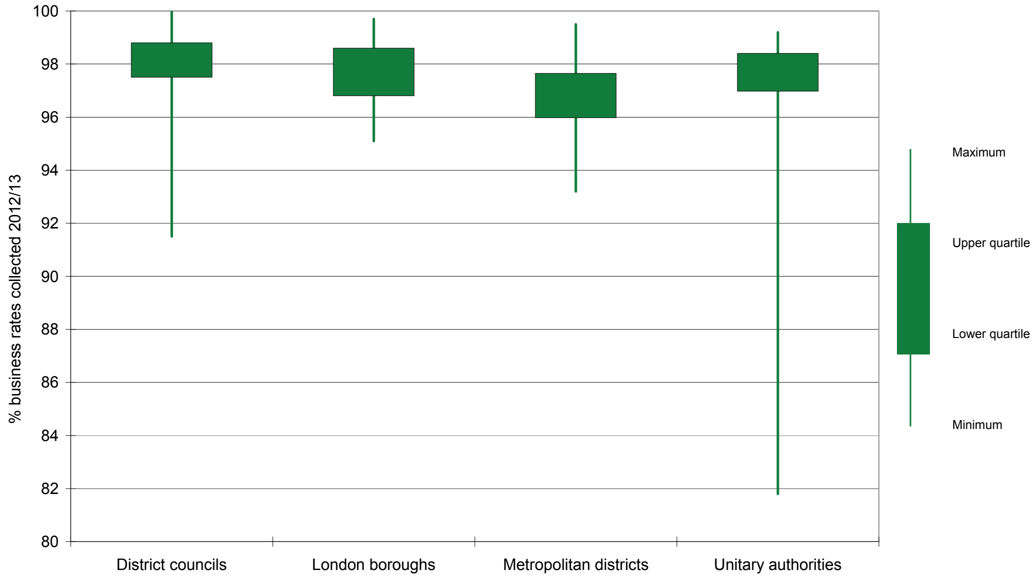
Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

13 It is likely that some councils face particular difficulties in collecting all the business rates due in areas where the recession has been more severe. Such areas may have a more transient business population, with more failures and greater 'churn' in start-ups.

14 Within each type of council, variation was highest among unitary councils[i] (Figure 7). The highest collection rates were achieved by district councils and one - Wyre Forest - collected 100 per cent of the business rates due. No other council of any type collected this amount in 2012/13.

[i] One unitary council had an unusually low collection in this year, because one large business did not pay the business rates due.

Figure 7: Variation in in-year collection rates by council type 2012/13



Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

15 Councils collect most of the business rates in the year they fall due. There may be good reasons why they cannot collect it all in-year. For example, some properties may not receive a valuation until after the year end, or relatively late in a billing year.

Section 3: Uncollected business rates and arrears

16 Councils try to collect due amounts until they decide it is uneconomical to do so, or that it is unlikely to lead to a successful outcome. At that point, they write off outstanding arrears as a loss.

17 Despite the high rates of in-year collection, business rates arrears are substantial over time and currently stand at £1.2 billion. This is money that, if collected in-year, would be available to the public purse sooner to support the delivery of services.

Cumulative business rates arrears

The total business rates arrears at 31 March 2013 for all billing authorities was £1.2 billion. The amount of arrears owed to individual councils ranged from just over £137,000 owed to a unitary council to £87.5 million owed to a metropolitan council.

Source: Department of Communities and Local Government, NNDR 3: national non-domestic rates 2012 to 2013

18 By council type, the range of business rates arrears reflects the size and scale of services and operations within each group. The bigger the council, the larger the amount of arrears is likely to be.

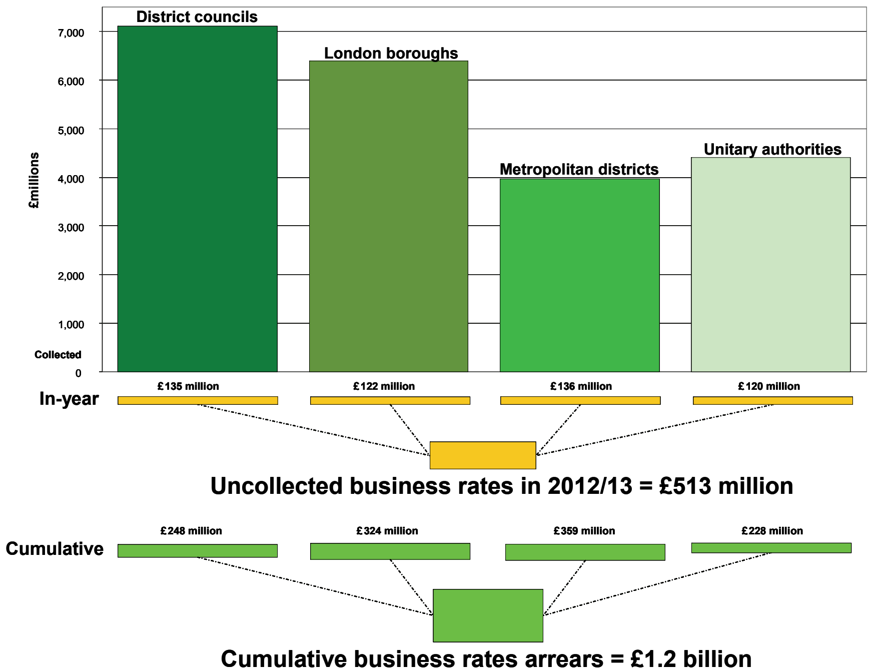
Figure 8: Business rate arrears by council type

	Total arrears £ million	Median arrears £ million	Minimum £ million	Maximum £ million
District councils	248.2	1.1	0.2	4.5
London boroughs	324.3	7.0	1.3	50.8
Metropolitan districts	358.7	5.6	1.1	87.5
Unitary authorities	228.2	3.4	0.1	10.5
England	1,159.4	1.7	0.1	87.5

Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

19 Figure 9 shows that arrears represent a small proportion of the business rates due to councils. Metropolitan districts collect a smaller amount of business rates than other councils and have the largest amount of arrears.

Figure 9: Collected and uncollected business rates in 2012/13



Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

20 Before April 2013, councils could deduct any arrears they had written off from the amount they paid into the national pool, so there was no direct financial loss to the council. Under the new arrangements, councils have a greater incentive to continue to pursue uncollected business rates, as they keep a proportion of what they collect (see Section 5).

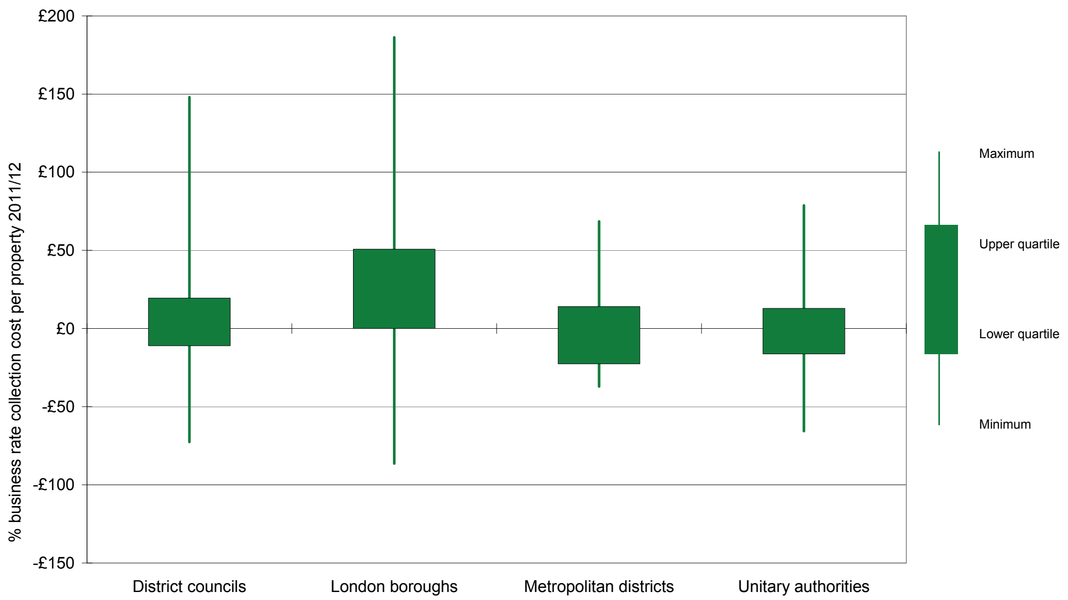
21 Before April 2013, councils deducted an allowance for collection costs from the amount they contributed to the business rates pool. Each council's allowance was calculated using a formula that took account of factors such as the number of business properties in the area and the higher cost of collecting business rates in some parts of the country.

22 In 2011/12[i], the total collection allowance for all councils was £84 million. Councils actually spent £90 million collecting business rates. The £6 million difference was funded from councils' own resources.

23 Overall in 2011/12, there was no relationship between the amount councils spent per property in collecting business rates and the amount of business rates they collected. Some councils spent less than their collection allowance, but collected a relatively high proportion of business rates. Others spent a lot more than their collection allowance, but had relatively low collection rates.

24 Figure 10 shows the variation in the collection cost per property for each type of council in 2011/12 after deducting the collection allowance. In half of councils (the inter-quartile range), costs varied from £-14.30 to £20.30 cost of collection per property. A cost below £0 indicates that a council spent less than their collection allowance. London boroughs had the highest level of variation in costs and metropolitan districts the lowest.

Figure 10: Net collection cost per property



Source: DCLG, 2011/12 Revenue Outturn Returns/CIPFA's Finance and General Actuals Statistics 2011/12

25 Councils face continuing financial pressures. This, plus the new arrangements for business rates, means they now have a greater incentive to reduce the costs of collecting business rates and to maximise the amount of business rates they collect.

[i] Data on costs for 2012/13 from the DCLG Revenue Outturns were not available at the time this briefing was published

26 In April 2013, the government introduced a business rates retention scheme. Councils as a whole will now be able to keep half of the business rates income they collect rather than paying it all into the national pool. As business rate income grows, councils will keep half of the growth.

27 The aim is to give councils a financial incentive to promote economic growth and increase the number of new businesses in their area. It means that councils will benefit financially if they:

- increase the business rates base by encouraging new businesses and economic growth;
- maximise the amount of business rates they collect each year; and
- minimise the cost of collecting business rates.

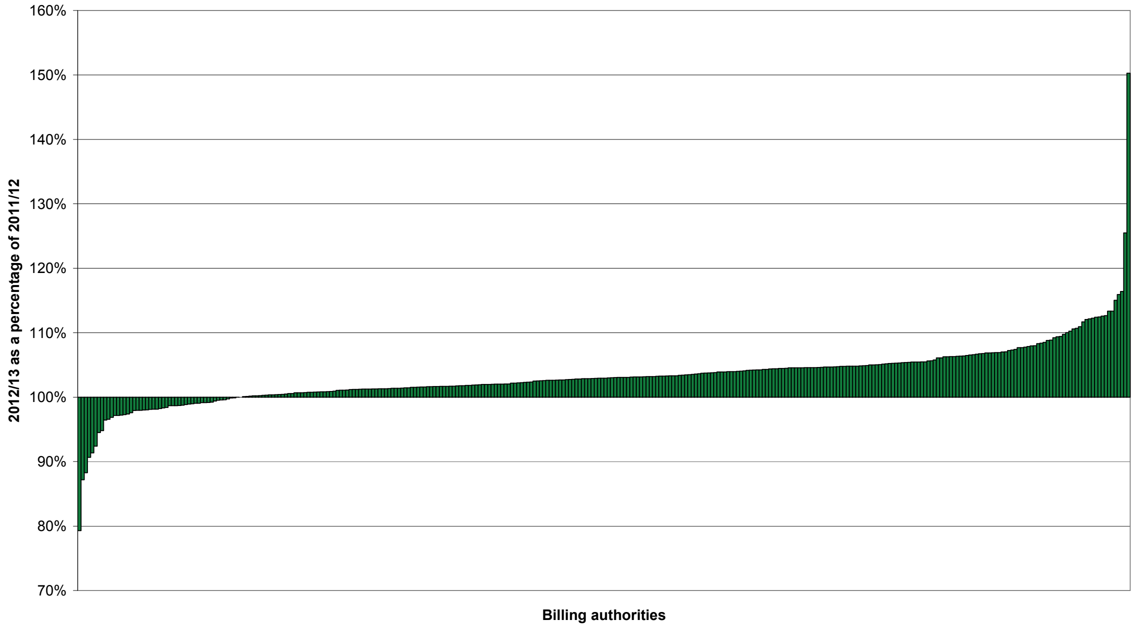
28 The amount of business rates individual councils collect will vary greatly in comparison to the size of their budgets. Accordingly, to avoid big changes in councils' income at the start of the new business rates retention system, the government put in place a system to reallocate funding by charging a 'tariff' on billing authorities that would be better off under the new arrangements. This will 'top up' the funding of billing authorities that would be worse off. All county councils will also receive top up payments to replace the redistributed business rates they used to receive.

29 From 2013/14 onwards, a council's income will be directly affected by changes in the amount of business rates it collects - the more it collects, the greater its income and the less it collects, the less its income will be. How much district councils collect will also directly affect how much income the county council in their area receives.

30 Since the size of growth or falls relative to council budgets will vary from area to area, the government has put in place arrangements to avoid extreme changes in individual councils' income. This is through a levy on 'disproportionate growth', which contributes to a 'safety net' for councils that experience severe falls in income. The government has published detailed guidance about how the new arrangements work (Ref 1).

31 Some councils will see variation in their income from business rates from year to year. In a few cases, this can be substantial. Figure 11 shows that, from 2011/12 to 2012/13, business rates income fell in 43 councils (13 per cent of all billing authorities), remained the same in 22 councils (7 per cent) and increased in 261 councils (80 per cent).

Figure 11: Change in business rates income from 2011/12 to 2012/13



Source: DCLG, NNDR 3: national non-domestic rates 2012 to 2013

32 Councils will need good economic data to develop robust financial plans and forecast business rates income. Greater uncertainty about income - for example, about the timing and outcome of rating valuation appeal decisions - may mean councils will want to have contingency plans to deal with years when business rates income is lower than expected.

33 To help reduce volatility in business rates income, councils can voluntarily pool their business rates. This enables any growth or reduction in business rates income to be shared and may mean that lower levy rates are payable for business rates growth.

Pooling arrangements

For 2013/14, 13 pools were set up comprising 90 councils. These expected to see growth in their business rates income of £44 million in 2013/14. If this happens, the lower levy rates that apply because they are in pools would result in them being £17 million better off.

Source: DCLG Business Rates Retention Pooling Prospectus July 2013

34 The new business rates retention scheme gives councils a greater incentive to prevent and tackle business rates fraud, because fraud will now directly reduce the income councils receive.

Business rates fraud

In 2012/13, the Commission reports that the total value of business rate fraud detected was £7.2 million.

Source: Audit Commission, Protecting the public purse 2013 (due to be published November 2013)

35 In response to the financial challenges they face, all councils should consider ways of maximising their business rates income. Steps they could take include:

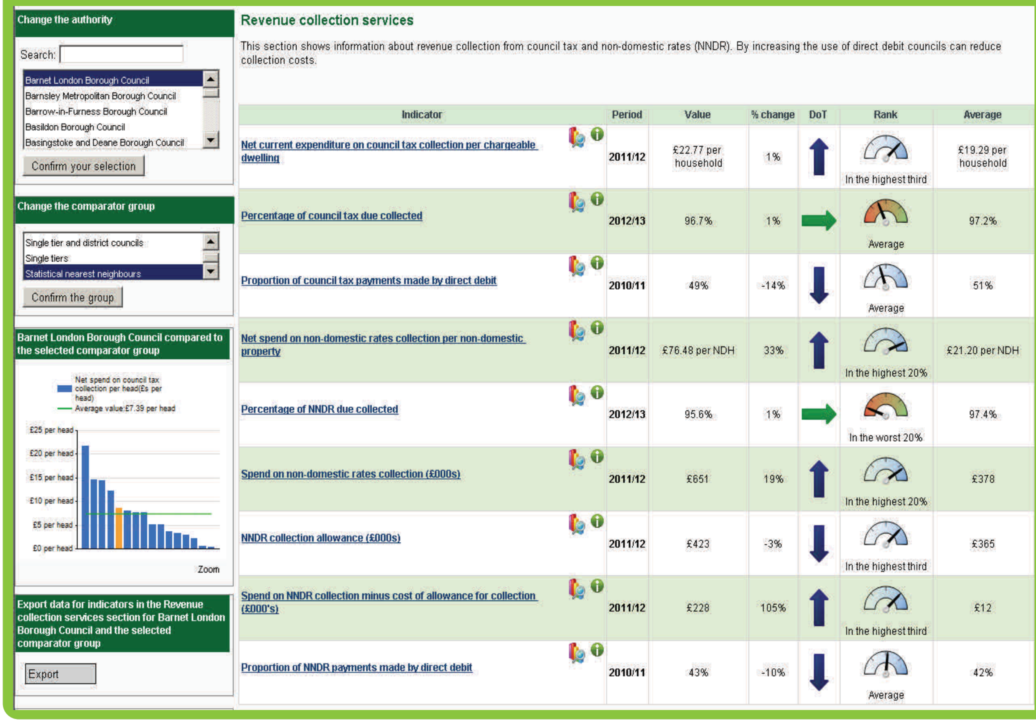
- supporting existing business to do well and finding ways of attracting new businesses to the area;
- making sure they identify and bill promptly all business properties with a rateable value;
- using discretionary relief in an effective way to make sure help is targeted at businesses that need it most;
- preventing and tackling fraudulent claims for relief;
- improving collection rates; and
- reducing collection costs.

36 The Commission's Value for Money Profiles can help councils understand their costs and rates of collecting business rates.

Section 6: Using the VFM profiles to explore business rates collection rates and costs

37 The Value for Money Profiles contain a range of data about business rates collection and other information about income and expenditure.

Below is a screenshot of the revenue collection services page of the financial resilience section. It shows the cost of collection per property and other information about business rates collection for each billing authority.



Indicator	Period	Value	% change	DoT	Rank	Average
Net current expenditure on council tax collection per chargeable dwelling	2011/12	£22.77 per household	1%		In the highest third	£19.29 per household
Percentage of council tax due collected	2012/13	96.7%	1%		Average	97.2%
Proportion of council tax payments made by direct debit	2010/11	49%	-14%		Average	51%
Net spend on non-domestic rates collection per non-domestic property	2011/12	£76.48 per NDH	33%		In the highest 20%	£21.20 per NDH
Percentage of NNDR due collected	2012/13	95.6%	1%		In the worst 20%	97.4%
Spend on non-domestic rates collection (£000s)	2011/12	£651	19%		In the highest 20%	£378
NNDR collection allowance (£000s)	2011/12	£423	-3%		In the highest third	£365
Spend on NNDR collection minus cost of allowance for collection (£000's)	2011/12	£228	105%		In the highest third	£12
Proportion of NNDR payments made by direct debit	2010/11	43%	-10%		Average	42%

38 The VFM Profiles use data supplied by English councils and published by a range of government departments and national agencies. The Department for Communities and Local Government collected and published the data used in this report on business rates collection rates (Ref 2) and costs (Ref 3).

39 Some things councils could consider when using the VFM Profiles include:

- how the cost and rate of collection compare to different comparator groups;
- how collection costs compare with the amount of collection allowance;
- how changes over time compare to the overall trends described in this briefing; and
- what impact the new business rate retention scheme will have.

40 Other relevant sections of the VFM Profiles include:

- sources of income, in the financial resilience section;
- council tax collection rates and costs, in the financial resilience section; and
- an overview of anticipated income and expenditure, in the planned budget section.

Appendix: More information about business rates

41 Billing authorities have a 'local list' of the business properties[i] in their area that have a rateable value. The Valuation Office Agency (VOA) independently sets a property's rateable value, based on its annual market rental value. The VOA has reassessed rateable values every five years and the last revaluation was in 2010, based on the value on 1 April 2008. The government has announced it intends to postpone the next revaluation to 2017.

42 Councils calculate the business rates due for a property by multiplying its rateable value by a national multiplier provided by central government. The multiplier changes every year to reflect inflation. Councils use a standard multiplier for medium-sized and large organisations, and a lower one for small businesses[ii]. In 2013/14, the national multiplier standard rate is 47.1p and 46.2p for small businesses.

Business rates relief

43 Councils give various types of relief to reduce some business rates bills. Most of this relief is mandatory and includes relief for small businesses, empty or partly-occupied properties, and charities. For example, mandatory relief reduces charities' business rates bills by 80 per cent. Councils also automatically reduce bills for a period where a business receives a significant change in its rateable value. This transitional relief limits the increase or decrease in business rates following a revaluation.

44 Councils have discretion to give other relief, for example, up to 20 per cent more for charities, or up to 100 per cent for some non-profit organisations and rural businesses.

45 Before April 2013, the full amount of mandatory relief and a proportion of the discretionary relief councils gave were deducted from their contribution to the national pool. This meant that the remaining proportion of discretionary relief (between 25 and 100 per cent depending on the type of relief given) had to be funded from councils' own resources.

[i] The local list includes business premises (buildings) and other structures used for business activities such as pylons and advertising hoardings.

[ii] The City of London gets a different and usually slightly higher multiplier.

Mandatory and discretionary relief

In 2012/13, councils granted nearly £2.4 billion of mandatory relief; an increase of over 12 per cent from 2011/12. This included a total of £1.3 billion of mandatory charity relief (13 per cent higher than the previous year) and nearly £1 billion of relief for empty properties (over 11 per cent higher than the previous year).

The amount of discretionary relief councils granted which was offset against their contribution to the pool reduced by over 4 per cent from £47 million in 2011/12 to £45 million in 2012/13.

Source: DCLG Statistical Release, National Non-Domestic Rates Collected by Local Authorities in England 2012/13, 14 August 2013

46 The growth in charitable relief probably reflects the economic downturn in some areas. Councils will need to be vigilant that applications for charitable relief are genuine. Business rate fraud includes:

- falsely claiming mandatory or discretionary rate relief or empty property exemptions;
- failure to declare occupancy of a property;
- falsely claiming insolvency status to evade payments; and
- not disclosing relevant information, for example, about the size of the company, to gain rate relief.

References

Ref 1. Department for Communities and Local Government, Business rates retention and the local government finance settlement: A practitioner's guide (version 3), DCLG, February 2013.

Ref 2. Department for Communities and Local Government, *Statistical Release: Collection Rates and Receipts of Council Tax and Non-Domestic Rates in England 2012 – 13*, 26 June 2013.

Ref 3. Department for Communities and Local Government, *Local authority revenue expenditure and financing England final outturn: 2011 to 2012 individual local authority data*, 27 November 2012.