

# KCC Share of Retained Business Rates and Final Local Government Finance Settlement 2022-23

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From Deputy Leader and Cabinet Member for Finance,  
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Circulated to Cabinet

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Classification Unrestricted

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The current funding arrangements for local government were introduced in 2013-14. The arrangements allow local authorities to retain 50% of the business rates raised locally. Effectively this means authorities retain any growth (or suffer losses) compared to the historic baseline share included in the local government finance settlement. A system of tariffs and top-ups on the baseline provide a redistribution to reflect differences between historical grant funding and business rate baseline.

The County Council's estimated share of retained business rates was not available in time to include in the final draft budget report for County Council published on 2<sup>nd</sup> February 2022. Information on the estimated share of retained business rates is calculated by each district council in Kent as per the government return (NNDR1). These returns were due to be completed by 31<sup>st</sup> January 2022. The returns identify the net collectable business rates after transitional discounts, reliefs, and adjustments for estimated bad debts and repayments. The net collectable business rates are split between the share returned to central government (50%), and locally retained shares for districts (40%), County Council (9%) and Fire (1%) after taking into account transitional payments, disregarded sums for retention, collection costs, and estimated collection fund balances to determine the net share of business rates for the year.

The final local government settlement was published on 7<sup>th</sup> February 2022. This included some changes from the provisional settlement published 16<sup>th</sup> December 2021. This final settlement was not received in time for the final draft budget report for County Council published on 2<sup>nd</sup> February. The final settlement included some changes from the provisional settlement, the most significant being additional compensation for the freezing of the business rate multiplier in 2022-23.

This report includes information on the County Council's share of retained business rates from NNDR1 and the final local government settlement. The final draft budget approved by County Council on 10<sup>th</sup> February assumed no change in the retained business rate share for 2022-23 (other than the estimated share from the business rate pool to be transferred to economic development/regeneration reserve) and no changes from the provisional local government finance settlement. This report includes a recommendation on how the final share of retained business rates and local government finance settlement should be treated in 2022-23 budget and 2022-25 medium term financial plan.

2.1 The County Council's estimated net share of business rates for 2022-23 is £37.9m. This compares to an earlier estimated share of £24.6m for 2021-22. However, within this there are several constituent elements affecting retained shares as set out in table 1.

**Table 1 – composition of share of business rates**

|                                      | 2022-23          | 2021-22          | Change           |           |
|--------------------------------------|------------------|------------------|------------------|-----------|
|                                      | £000s            | £000s            | £000s            | £000s     |
| Total Rateable Value                 | 1,483,675.9      | 1,485,072.8      | -1,396.9         |           |
| Gross Rates after Multiplier         | 740,354.3        | 741,051.3        | -697.0           | 5,623.3   |
| Forecast Growth/(Decline)            | 3,659.6          | -2,660.7         | 6,320.3          |           |
| Net Transitional Protection          | 0.0              | 3,314.6          | -3,314.6         |           |
| Mandatory Reliefs                    | -101,653.0       | -97,239.4        | -4,413.6         | -62,045.1 |
| Covid-19 Reliefs                     | -57,132.7        | 0.0              | -57,132.7        |           |
| Unoccupied Reliefs                   | -19,168.7        | -20,563.4        | 1,394.6          |           |
| Discretionary Reliefs                | -6,360.9         | -4,467.6         | -1,893.3         |           |
| <b>Net Rates Payable</b>             | <b>559,698.5</b> | <b>619,434.8</b> | <b>-59,736.3</b> |           |
| Less estimated bad debts             | -8,604.5         | -9,044.5         | 440.0            | 12,840.7  |
| Less estimated repayments            | -25,017.8        | -37,188.4        | 12,170.6         |           |
| Designated area disregarded amounts  | 670.0            | 439.9            | 230.1            |           |
| <b>Collectable Rates</b>             | <b>526,746.2</b> | <b>573,641.8</b> | <b>-46,895.6</b> |           |
| plus Transitional repayments         | 0.0              | -3,314.6         | 3,314.6          |           |
| less Collection Costs                | -2,090.6         | -2,076.7         | -13.9            | -2,388.7  |
| less Disregards                      | -5,816.0         | -3,441.3         | -2,374.7         |           |
| <b>Net for Distribution</b>          | <b>518,839.6</b> | <b>564,809.3</b> | <b>-45,969.7</b> |           |
| 9% KCC share of net for distribution | 46,695.6         | 50,832.8         | -4,137.3         |           |
| plus share of Disregards             | 3,113.9          | 1,054.8          | 2,059.1          |           |
| Estimated Collection Fund Balance    | -11,921.2        | -27,250.0        | 15,328.8         |           |
| <b>Net Retained Rates</b>            | <b>37,888.3</b>  | <b>24,637.7</b>  | <b>13,250.6</b>  |           |

**Rateable Value** This represents the total rateable value (RV) on all non-domestic properties in the county as assessed by the Valuation Office Agency (VOA). The gross business rates is the RV times the National Non-Domestic Rate (NNDR) multiplier of 49.9p. Forecast growth/decline is the district's estimates for new properties and changes in valuations from outstanding Check/Challenge/Appel claims.

**Transitional Protection** Following the last revaluation of rateable values in 2017 transitional arrangements limited the increases and reductions on individual properties enabling changes to be phased in over five years from 2017-18 to 2021-22. Overall, the net impact across Kent for 2021-22 showed a time limited increase with a higher value for transitional increases than transitional protection. Transitional protection does not affect locally retained amounts as any protection is reimbursed

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|                          | from national pool and any increases repaid to the national pool.  |
| Mandatory Reliefs        | Mandatory reliefs include reliefs for small businesses (those with an RV under £15k) of up to 100%, reliefs for charitable premises (80%) as well as other less significant reliefs. Mandatory reliefs do affect locally retained amounts for all authorities as they reduce the amounts of rates payable on properties in receipt of reliefs.   |
| Covid-19 Reliefs         | <p>During the Covid-19 pandemic additional reliefs via districts and boroughs were granted by the Government to retail, leisure and hospitality businesses. The March 2021 Budget confirmed that reliefs would continue to apply in 2021-22 at 100% for three months from 1 April 2021 to 30 June 2021, and at 66% for the remaining period from 1 July 2021 to 31 March 2022. However, this was announced too late for the districts and boroughs to include in 2021-22 NNDR1 returns. This has caused the net business rates payable in 2021-22 to be significantly lower than the amount included in the 2021-22 budget. This has resulted in a large collection fund deficit which is then compensated for separately by a Section 31 grant. This was initially paid “on account” based on estimated and verified at year end based on actual costs included in NNDR3 returns.</p> <p>The October 2021 Budget confirmed that the 2022-23 Retail, Hospitality and Leisure Business Rates Relief Scheme will provide eligible, occupied, retail, hospitality and leisure properties with a 50% relief, up to a cash cap limit of £110,000 per business. This was announced in time to include in the 2022-23 NNDR1 returns and again the impact on local authority retained business rates will be compensated by a separate Section 31 grant.</p> |
| Unoccupied Reliefs       | Empty properties are exempt from business rates for 3 months. Some properties such as industrial premises, listed buildings, etc., are eligible for extended empty reliefs. Empty property reliefs do affect locally retained amounts for all authorities as they reduce the amount of business rates payable.   |
| Discretionary Reliefs    | <p>Discretionary reliefs include additional reliefs granted by government for which authorities receive a separate Section 31 compensation grant so do not impact on locally retained amounts. These include the cap/freeze on the multipliers for all businesses, extension of small business rate relief, rural rate relief, additional support for small businesses, telecoms relief and relief for local newspapers.</p> <p>Other discretionary reliefs such as additional charitable reliefs can be granted by local councils at their discretion. These reliefs do impact on locally retained amounts for all authorities as they reduce the amount of business rates payable.</p>   |
| Bad Debts and Repayments | These are estimated amounts affecting business rate collection determined by collection authorities (district and borough councils in Kent). Bad debts include businesses that have entered administration. Repayments reflect estimates for over payments including backdated claims for Check/Challenge/Appeal. These do affect locally retained amounts for all authorities as they reduce the amount of business rates payable.  |

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| Collection Costs       | Collection authorities recover the costs of business rate collection within their retained share. The treatment of collection costs reduces the amount of business rates for the central share and precepting authorities.   |
| Disregards             | Disregards include properties in designated areas (such as Enterprise Zones) and renewable energy schemes. Locally retained amounts are adjusted for the impact of additional discounts under these schemes. The renewable energy scheme also allows local areas that host renewable energy projects to keep all the additional business rates on these premises (including two-tier distribution).                                    |
| Local authority shares | These are based on the net amount available for distribution after application of reliefs, bad debts and repayments, collection costs and disregards split proportionally between central share (50%), collection authority share (40%), and precepting authority share (9% county council, 1% fire authority).  |
| Collection Fund        | The Collection Fund amounts are determined by collection authorities for over/under collection on the estimated amount in previous NNDR1 returns. Collection fund deficits include the impact of additional reliefs not included in previous NNDR1s (e.g. Covid-19 reliefs for previous years) which attract separate Section 31 Grant. Collection fund balances are split in the same proportions as the central and retained shares. |

2.2 The main changes by district area are set out in table 2.

**Table 2 – District Changes**

|                        | 2022-23<br>NDR<br>Income | Change in<br>Gross<br>Rates | Change in<br>Reliefs | Changes<br>in Bad<br>Debts &<br>Repaymen<br>ts | Change in<br>Collection<br>Costs &<br>Disregards | Change in<br>Net for<br>Distribution |
|------------------------|--------------------------|-----------------------------|----------------------|--|--|--------------------------------------|
|                        | £000s                    | £000s                       | £000s                | £000s  | £000s  | £000s                                |
| Ashford                | 49,326.2                 | 1,492.7                     | -4,492.0             | -116.0   | -16.6  | -3,131.8                             |
| Canterbury             | 43,026.8                 | 1,258.5                     | -9,151.4             | 3,221.1  | 5.2  | -4,666.6                             |
| Dartford               | 83,522.1                 | -49.1                       | -5,261.4             | 389.4  | 1.7  | -4,919.4                             |
| Dover                  | 39,075.0                 | 33.7                        | -2,741.1             | 2,423.7  | -5.1   | -288.8                               |
| Folkestone &<br>Hythe  | 22,550.8                 | -2,200.7                    | -4,880.7             | 125.9  | -3.3   | -6,958.8                             |
| Gravesham              | 22,987.9                 | 352.5                       | -2,588.6             | 1,366.4  | -226.2   | -1,095.9                             |
| Maidstone              | 51,455.9                 | 204.2                       | -8,159.9             | 1,697.8  | -29.5  | -6,287.5                             |
| Sevenoaks              | 32,619.9                 | -216.2                      | -3,770.5             | 94.9   | 1.5  | -3,890.2                             |
| Swale                  | 47,205.1                 | 2,450.6                     | -3,936.1             | 203.5  | -2,117.8   | -3,399.8                             |
| Thanet                 | 30,626.3                 | 275.8                       | -3,424.6             | 300.0  | -1.2   | -2,850.0                             |
| Tonbridge &<br>Malling | 50,435.6                 | 110.2                       | -5,673.4             | 0.0  | 3.2  | -5,560.1                             |
| Tunbridge Wells        | 46,008.0                 | 1,911.1                     | -7,965.3             | 3,134.0  | -0.7   | -2,920.9                             |
| Total Kent             | 518,839.6                | 5,623.3                     | -62,045.1            | 12,840.7                                       | -2,388.7   | -45,969.7                            |

|                     | Change in KCC Share of Net for Distribution | Change in Share of Disregards | Change in Share of Collection Fund | Change in Total Share for Distribution |
|---------------------|---|-------------------------------|------------------------------------|--|
|                     | £000s                                       | £000s                         | £000s                              | £000s                                  |
| Ashford             | -281.9                                      | 0.0                           | 1,128.5                            | 846.7                                  |
| Canterbury          | -420.0                                      | 0.0                           | 2,316.9                            | 1,896.9                                |
| Dartford            | -442.7                                      | 0.0                           | 2,828.1                            | 2,385.4                                |
| Dover               | -26.0                                       | -13.1                         | 935.8                              | 896.7                                  |
| Folkestone & Hythe  | -626.3                                      | 0.0                           | 388.3                              | -238.0                                 |
| Gravesham           | -98.6                                       | 0.0                           | 911.8                              | 813.2                                  |
| Maidstone           | -565.9                                      | -42.3                         | 2,104.0                            | 1,495.8                                |
| Sevenoaks           | -350.1                                      | 0.0                           | 850.5                              | 500.4                                  |
| Swale               | -306.0                                      | 2,114.6                       | 533.0                              | 2,341.5                                |
| Thanet              | -256.5                                      | 0.0                           | 1,116.0                            | 859.5                                  |
| Tonbridge & Malling | -500.4                                      | 0.0                           | 591.8                              | 91.4                                   |
| Tunbridge Wells     | -262.9                                      | 0.0                           | 1,624.1                            | 1,361.2                                |
| Total Kent          | -4,137.3                                    | 2,059.1                       | 15,328.8                           | 13,250.6                               |

2.3 The £13,250.6k in tables 1 and 2 is the year on year increase between KCC's retained share of business rate and collection fund between 2021-22 and 2022-23. The final draft budget assumed that KCC's retained business rates would increase by £26,080.0k. The NNDR1 increase is therefore £12,829.4k lower than what was included in the final draft budget.

2.4 The impact of KCC's share of locally retained business rates from NNDR1 compared to the amounts included in the final draft budget published on 2<sup>nd</sup> February and approved by County Council on 10<sup>th</sup> February is a reduction to retained business rates of £12,829.4k. This reduction comprises:

- £46,695.6k share of locally retained business rates is £4,137.3k less than the estimated £50,832.8k included in the final draft published budget
- £3,113.9k share of disregarded amounts is £2,101.4k more than the estimated £1,012.5k included in the final draft budget
- £11,921.2k share of collection fund deficit is £10,793.6k more (larger deficit) than the £1,127.6k deficit from 2020-21 included in the draft budget

2.5 Overall this represents a reduction in funding from retained business rates of £12,829.4k compared to the approved budget. Of this the £10,793.6k is one-off and £2,035.8k is recurring. However, this position is before the additional compensation grants and final local government finance settlement.

2.6 We do not have final confirmation of compensation grants at this stage other than the final amount for the freezing of the NNDR multiplier included in the final local government settlement. However, from NNDR1 and other returns we can revise the **estimated** amount included in the final draft budget published on 2<sup>nd</sup> February and approved by County Council on 10<sup>th</sup> February as shown in table 3.

**Table 3 – Revised Compensation Grant Estimates**

|  | Revised & Notified Compensation | Budget Estimate | Change |
|--|---------------------------------|-----------------|--------|
|  |                                 |                 |        |

|   | £000s    | £000s    | £000s    |
|---|----------|----------|----------|
| Indexation Compensation (notified)        | 19,238.8 | 15,564.5 | 3,674.3  |
| Other Discretionary Relief Compensations  | 4,356.6  | 4,000.4  | 356.2    |
| Covid-19 Compensation for 2022-23 Reliefs | 5,667.5  | 0.0      | 5,667.5  |
| Covid-19 Compensation on Collection Fund  | 11,886.6 | 0.0      | 11,886.6 |
| Total                                     | 41,149.5 | 19,564.9 | 21,584.6 |

2.7 Of the revised compensation grants £29,262.9k is recurring (including the freezing of the business rate multiplier and other discretionary reliefs and Covid-19 reliefs in 2022-23). Retail, hospitality and leisure businesses are expected to revert back to paying full business rated when the additional Covid-19 reliefs cease. We do not yet know the full impact of Covid-19 on these businesses so this income may not recur at the same rate. £11,886.6k is one-off to compensate for the impact of the extension of Covid-19 reliefs in 2021-22 and impact on the collection fund deficit.

2.8 Overall the combination of reduced share of retained business rates and collection losses from NNDR1 and revised notified/estimated compensation grants results in an additional £8,775.2k compared to the final draft budget. This comprises the £12,849.4k loss of retained business rates income explained in paragraph 2.3 and £21,584.6k of additional compensation grant in table 3.

3.1 The final local government finance settlement was announced on 7<sup>th</sup> February 2022. The Council's final draft budget published on 2<sup>nd</sup> February and approved by County Council on 10<sup>th</sup> February was therefore based on the provisional settlement.

3.2 The final settlement was largely unchanged from the provisional settlement other than the compensation for the freezing of the business rate multiplier in 2022-23. This compensation is now based on the amount that we would have received through retained business rates and business rates top-up based on Retail Price Index (RPI) rather than Consumer Price Index (CPI). The government initially intended to change the indexation of business rates from RPI to CPI in April 2020 to reduce the inflation burden on businesses. This change was subsequently brought forward to April 2018. Local authorities were to be compensated for this change through Section 31 compensation grant. The additional compensation grant for business rates amounts to £3,765.5k in 2022-23 due to the revised indexation. This is the estimated amount in the core spending power, the NNDR1 returns will be used to calculate the amount to be included in the budget as these are based on more up to date information. The revised compensation grant in the final settlement is reflected in table 3 in section 2 of this report.

3.3 The final settlement also included minor changes to the allocation of Social Care Support Grant and Improved Better Care Fund (iBCF) grant. A summary comparison of the provisional and final settlement is set out in Table 4 below:

**Table 4 – Comparison of Final and Provisional Local Government Finance Settlement**

|                                   | Final Settlement<br>2022-23 | Provisional Settlement<br>2022-23 | change         |
|-----------------------------------|-----------------------------|-----------------------------------|----------------|
|                                   | £000s                       | £000s                             | £000s          |
| <b>Business Rates</b>             |                             |                                   |                |
| Baseline - Local Share            | 49,468.9                    | 49,468.9                          | 0.0            |
| <b>Government Grants</b>          |                             |                                   |                |
| Business Rates Top Up             | 138,429.0                   | 138,429.0                         | 0.0            |
| RSG                               | 10,018.1                    | 10,018.1                          | 0.0            |
| Business Rates Compensation Grant | 19,204.0                    | 15,438.5                          | 3,765.5*       |
| Social Care Support Grant         | 54,478.4                    | 54,477.6                          | 0.8            |
| iBCF                              | 50,014.7                    | 50,012.5                          | 2.1            |
| Social Care Reform Grant          | 4,161.0                     | 4,161.0                           | 0.0            |
| Services Grant                    | 12,953.2                    | 12,953.2                          | 0.0            |
| NHB                               | 4,381.5                     | 4,381.5                           | 0.0            |
| <b>Total</b>                      |                             |                                   | <b>3,768.4</b> |

\*This is the estimate in the core spending power in the final settlement, a more up to date amount of £3,674.3k from the NNDR1 returns will be included in the Council's final budget.



4.1 The combination of the NNDR1 retained business rate share, notified and estimated business rates compensation, and final local government finance settlement results in a net increase in the available funding for 2022-23 of £8,758.1k. Of this £7,665.1k is deemed as recurring (including compensation for business rate multiplier and discretionary reliefs, Covid-19 reliefs for 2022-23, and the revised social grants in the final settlement) and £1,093.0k one-off (collection fund deficit and compensation for Covid-19 reliefs on collection fund deficit).

4.2 County Council on 10<sup>th</sup> February agreed two amendments to the 2022-23 budget and MTFP:

- Additional £300k in 2022-23 (£500k in full year) to retain disabled companion pass on English National Concessionary Travel Scheme (ENCTS)
- Additional £54k in 2022-23 to prevent increase in the discounted charge for Kent Travel Saver (KTS) for low income families.

4.3 It is proposed that the cost of these two amendments should be funded from the additional recurring funding from retained business rates and compensation as first priority on additional funding.

4.4 The additional funding results in an increase in 2022-23 net revenue budget of £8,758.1k. This would require an additional £437.9k to be added to the Council's general reserves to maintain these at 5% of net revenue budget for 2022-23. A further £2,325.7k will need to be added to general reserves in the later years of the MTFP to reflect the additional recurring funding. The £437.9k increase in general reserves in 2022-23 is proposed to be second priority on the additional funding.

4.5 After funding these first and second priorities £7,966.2k of recurring and one-off additional funding remains. It is proposed that this is used to increase the council's risk reserve. This will increase the 2022-23 contribution to the risk reserve to £14,966.2k (although less will be available in subsequent years to continue to maintain 5% general reserve and due to one-off element for 2022-23). The total amount available in this reserve will depend on 2021-22 outturn. The risk reserve was established in 2021-22 to mitigate risks such as inflation. Given the current and expected increases in inflation that will be further impacted by the Russian invasion of Ukraine, the proposed increase will help to address the challenge the council will face particularly in terms of inflation risk.