

KCC Share of Retained Business Rates, Final Local Government Finance Settlement and implications for the 2023-24 revenue budget & Medium Term Financial Plan (MTFP)

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1.1 The current funding arrangements for local government were introduced in 2013-14. The arrangements allow local authorities (upper and lower tier) 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 economic fallout from the Covid-19 pandemic has had a significant impact on business rates with significant additional discounts for business and freezing of index linked uplifts, local authorities have been compensated for these government measures through a separate section 31 compensation grant.

1.2 Business rates in the UK are paid on all non-domestic properties based on each property's assigned "rateable value" and national business rate "multiplier". Business rates are collected by billing authorities (district and unitary councils). The rateable values for 2023-24 have been revalued. The last revaluation was in 2017. The revaluation was due for April 2021 (followed by further revaluations every 3 years i.e. 2024, 2027, etc), however, this was postponed in 2020 during Covid-19 pandemic until April 2023. The government has confirmed that the revaluation will have a neutral impact on business rate retention through adjusting the tariffs and top-ups.

1.3 The County Council's latest estimated share of retained business rates was not available in time to include in the final draft budget report for County Council published on 1st February 2023. Information on the share of retained business rates is calculated by each district council in Kent as per the statutory government return (NNDR1). The retained business rate precept must be based on these estimates from collection authorities with any over/under collection reflected through collection fund balances. These returns were due to be completed by 31st January 2023. 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 District Councils (40%), County Council (9%) and Fire Authority (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.

1.4 The final local government settlement was published on 6^h February 2023. This included a minor change from the provisional settlement which was published 19th December 2022. This final settlement was not received in time for the final draft budget report for County Council published on 1st February. The final settlement included a minor change from the provisional settlement relating to an increase in the Services Grant by £300.5k from releasing £19.1m of unused contingency in the grants for all councils.

1.5 This report includes information on the County Council's latest estimated share of retained business rates from NNDR1 and the final local government settlement. The final draft budget approved by County Council on 9th February 2023 assumed no additional growth in the retained business rate share for 2023-24 compared to 2022-23 retained growth, and no changes from the provisional local government finance settlement. This report includes a recommendation on how the final estimated share of retained business rates and local government finance settlement should be treated in 2023-24 budget and 2023-26 medium term financial plan.

2.1 Appendix 1 sets out the County Council's estimated net share of business rates for 2023-24 compared to 2022-23 and highlights the significant changes, and appendix 2 provides further information on the change in rateable values following the revaluation of all non-domestic properties from April 2023.

2.2 The final draft budget presented to County Council on the 9th February 2023 assumed that KCC's retained business rates and share of collection fund would increase by £16,041.8k. The latest information obtained from the completion of the NNDR1 forms by District Councils means we have an additional £3,207.6k of business rates income for 2023-24.

2.3 This increase comprises of the following component parts:

- share of disregarded amounts is £372.8k higher and baseline is £372.8k lower than the estimate included in the final draft budget.
- locally retained business rate growth is £2,140.0k higher than the estimate included in the final draft budget.
- share of collection fund deficit is an improvement of £1,067.6k (smaller deficit) than the estimate included in the draft budget. The draft budget included the final element of the 2020-21 deficit (-£1,127.6k) which was spread over three years. The final collection fund estimate includes this spread as well as an estimated collection fund surplus of £1,067.6k for 2022-23, as notified to us by the billing authorities as part of their NNDR1 returns.

2.4 We have revised our estimates for Business Rate Compensation based on the NNDR1 returns and information within the final local government finance settlement for 2023-24. Final figures will not be available for approximately two years until after accounts have been audited.

Table 1 – Revised Business Rate Compensation Grant Estimates

	Revised & Notified Compensation £000s	Budget Estimate £000s	Change £000s
Indexation Compensation (notified)	33,727.4	33,239.2	488.2
Other Discretionary Relief Compensations	4,452.0	4,356.6	95.4
Retail, Hospitality and Leisure Compensation Reliefs	6,062.0	5,667.5	394.5
Total	44,241.4	43,263.3	978.1

2.5 All of the revised compensation grant is recurring. Retail, hospitality and leisure businesses are expected to revert back to paying full business rates when the additional 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.

2.6 Overall the combination of increased share of retained business rates, reduced collection fund losses, and revised notified/estimated compensation grants results in an additional £4,185.7k of business rates related funding compared to the final draft budget presented to County Council on 9th February 2023. This comprises of £3,207.6k increase in retained business rates income explained and £978.1k of additional business rates compensation grant. A significant proportion of this will be recurring (providing we do not see

any future reductions in business rates) but it is impossible at this point in time to identify how much until we have the further adjustments to the business rate top-up for 2024-25. Consequently for 2023-24 it is recommended that all of the additional business rate retention and compensation grant is used to reduce the £7.9m draw down from reserves in 2023-24 with the additional recurring element built into the 2024-25 budget once adjustments have been confirmed.

Table 2 – Summary of changes to the Business Rates figures presented to County Council on 9th February 2023

	Confirmed final estimates for 2023-24 Business Rates £000s	Estimates reported to County Council 9 th Feb 2023 £000s	Net Increase in funding for 2023-24 £000s
Retained Business Rates			
Local share of baseline	50,640.5	51,013.3	-372.8
Local share of disregards	3,486.7	3,113.9	372.8
Sub Total (1)	54,127.2	54,127.2	0.0
Local share of growth	3,070.5	930.5	2,140.0
Pool benefit	3,000.0	3,000.0	0.0
Sub Total (2)	6,070.5	3,930.5	2,140.0
Collection Fund (including spread)	-60.0	-1,127.6	1,067.6
Sub Total (3)	60,137.7	56,930.1	3,207.6
Business Rates Compensation (see table 1 for detail)	44,241.4	43,263.3	978.1
Totals	104,379.1	100,193.4	4,185.7

3.1 The final local government finance settlement was announced on 6th February 2023. The Council’s final draft budget published on 1st February and approved by County Council on 9th February was therefore based on the provisional local government finance settlement.

3.2 The final settlement was largely unchanged from the provisional settlement other than a £300.5k increase in our allocation of the Services Grant following the release by DLUHC of unused contingency. A summary comparison of the provisional and final settlement is set out in Table 3 below.

Table 3 – Comparison of 2023-24 Final and Provisional Local Government Finance Settlements

Government Grants within Core Spending Power	Final Settlement	Provisional Settlement	Change
	£000s	£000s	£000s
Business Rates	194,929.5	194,929.5	
Revenue Support Grant (RSG)	11,072.6	11,072.6	0.0
Improved Better Care Fund (iBCF)	50,014.7	50,014.7	0.0
Social Care Grant	88,770.7	88,770.7	0.0
Adult Social Care Discharge Fund	7,012.0	7,012.0	0.0
Business Rates Compensation Grant	33,204.4*	33,204.4	0.0
New Homes Bonus	2,272.8	2,272.8	0.0
Services Grant	7,599.4	7,298.9	300.5
Adult Social Care Market Sustainability & Improvement Fund	14,435.1	14,435.1	0.0
TOTALS	409,311.2	409,010.7	300.5

*This is the estimate in the core spending power in the final settlement. It differs from the figures in appendix 1 and 3 as this table only reflects the under indexation of the business rate multiplier. A more up to date amount of £33,727.4k from the NNDR1 returns will be included in the Council’s final budget (and this increase is reflected in the additional £978.1k shown in table 3 and 4 above).

3.3 In addition, the Extended Rights to Free Travel grant allocation for 2023-24 has recently been confirmed at £3,257.7k, an increase of £239k on the estimated amount included within the approved 2023-24 budget.

4.1 The combination of the increase in 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 2023-24 of £4,725.2k**. Of this £3,118.1k relates to core funding from retained business rates, £539.5k relates to government grants and £1,067.6k from business rate collection fund.

4.2 It is proposed that the £3,118.1k from retained business rates and the £539.5k from government grants (£3,657.6k in total) is used to support core spending in 2023-24 and thereby reduces the amount of draw down required from the corporate smoothing reserve from £7,909.3k to £4,251.7k.

4.3 In accordance with existing policy, it is proposed to transfer the one-off Business Rate collection fund excess balance of £1,067.6k into the Local Taxation Reserve (as we have done for the surplus Council Tax collection fund balance).

4.4 We are currently working closely with Maidstone Borough Council to understand the implications of these latest Business Rate figures on the Business Rate pool and the financial benefit back to this Council. We intend to update Members in due course.

4.5 We have updated our funding assumptions for 2024-25 and 2025-26 and attached a revised high level summary three year plan at appendix 4. The updated figures will be our starting point in building our detailed 2024-25 budget which will be presented to Members for approval in February 2024.

2.1 The County Council's estimated net share of business rates for 2023-24 is £60.1m (including the business rate pool). This is the amount we need to precept from collection authorities. This compares to £40.9m for 2022-23, an increase of £19.2m. However, within this there are several constituent elements affecting retained shares as set out in table 4.

Table 4 – composition of share of business rates

	2023-24	2022-23	Change	
	£000s	£000s	£000s	£000s
Total Rateable Value (RV)	1,645,554.2	1,483,675.9	161,878.3	
Gross Rates after Multiplier	821,131.5	740,354.3	80,777.2	77,922.5
Forecast Growth/(decline)	804.9	3,659.6	-2,854.7	
Net Transitional Protection	-59,139.9	0.0	-59,139.9	-59,139.9
Mandatory Reliefs	-96,798.8	-101,653.0	4,854.2	1,520.2
Retail, Hospitality & Leisure Reliefs	-57,551.4	-57,132.7	-418.7	
Unoccupied Reliefs	-20,518.9	-19,168.7	-1,350.2	
Discretionary Reliefs	-7,926.0	-6,360.9	-1,565.1	
Net Rates Payable	580,001.4	559,698.5	20,302.9	
Less estimated bad debts	-8,810.5	-8,604.5	-206.0	-1,446.7
Less estimated repayments	-26,304.0	-25,017.8	-1,286.2	
Designated area disregarded amounts	715.6	670.0	45.6	
Collectable Rates	545,602.4	526,746.2	18,856.2	
plus Transitional payments	59,139.9	0.0	59,139.9	59,139.9
less Collection Costs	-2,103.2	-2,090.6	-12.6	-47.1
less Disregards	-5,850.5	-5,816.0	-34.5	
Net for Distribution (100%)	596,788.6	518,839.6	77,949.0	
KCC share				
9% KCC share of net for distribution	53,711.0	46,695.6	7,015.4	
plus share of Disregards	3,486.7	3,113.9	372.8	
plus Pool benefit	3,000.0	3,000.0	0.0	
Estimated Collection Fund Balance	-60.0	-11,921.2	11,861.2	
Net Retained Rates (see note)	60,137.7	40,888.3	19,249.4	

Note: £16,041.8k was included as an estimated increase for 2023-24 budget approved by County Council on 9th February 2023, so the final precept is £3,207.6k higher than the approved budget.

The following table provides a brief description of the component parts of the NNDR1 in Table 4 above.

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 multiplied by the National Non-Domestic Rate (NNDR) multiplier of 49.9p. Forecast growth/decline is the district's estimates for new properties and
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	changes in valuations from outstanding Check/Challenge/Appeal claims as well as the impact of revaluation.
Transitional Protection	Transitional arrangements will be in place over the 3 years 2023-24 to 2025-26 for businesses that have seen a significant change to their rateable value following the revaluation. Transitional protection does not affect local authority retained amounts as any protection is reimbursed from a national pool and any increases repaid to the national pool (this can be seen in the transitional protection of -£59.1m and transitional payments from Government of +£59.1m in Table 4 above).
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 local authority retained amounts as they reduce the amounts of rates payable on properties in receipt of reliefs.
Retail, Hospitality & Leisure Reliefs	Following the Covid-19 pandemic additional reliefs via districts and boroughs were granted by the Government to retail, leisure and hospitality businesses. During 2022-23 eligible businesses could get 50% off their business rates bills up to a cash cap of £110,000; this has been extended into 2023-24 where eligible businesses could get 75% off their bills, with the same cash cap in place. The impact on local authority retained business rates will be fully compensated by a separate Section 31 grant.
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 local authority retained amounts as they reduce the amount of business rates payable.
Discretionary Reliefs	Discretionary reliefs include additional reliefs granted by government for which authorities receive a separate Section 31 compensation grant so do not impact on local authority 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. Other discretionary reliefs such as additional charitable reliefs can be granted by local councils at their discretion. These reliefs do impact on local authority retained amounts as they reduce the amount of business rates payable.
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 local authority retained amounts as they reduce the amount of business rates payable.
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 businesses, such as those that host 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%), District Council (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.

2.2 The most significant increase relates to changes in rateable values following the revaluation of all non-domestic properties from April 2023. Information about the impact of the revaluation was published by the Valuation Office Agency (VOA) in November <https://www.gov.uk/government/statistics/non-domestic-rating-change-in-rateable-value-of-rating-lists-england-and-wales-2023-revaluation/non-domestic-rating-reval-2023-draft-list-statistical-commentary-and-background-information> together with a statistical release <https://www.gov.uk/government/statistics/non-domestic-rating-change-in-rateable-value-of-rating-lists-england-and-wales-2023-revaluation>. As a result of the revaluation rateable values in Kent increased by 9.5%, this compares with a national increase of 7.3% and South East average of 10.9%. The revaluation accounts for the vast majority of £162m increase in RVs (and consequently the £78m additional business rates for distribution) from NNDR1 as shown in table 4. Table 5 summarises the changes in valuations for Kent, South East and England based on the published statistical release.

Table 5 – Impact of 2023 Revaluation

	Total	Retail	Industrial	Office	Other
Kent					
Rateable Value 2023	£1,631.3k	£389.2k	£510.5k	£174.4k	£557.1k
Rateable Value 2017	£1,490.3k	£455.3k	£379.4k	£148.6k	£507.1k
Change	£140.9k	-£66.1k	£131.3k	£25.9k	£50.1k
	9.5%	-14.5%	34.6%	17.4%	9.9%
South East					
Rateable Value 2023	£10,450.5k	£2,234.4k	£3,000.7k	£1,917.3k	£3,298.1k
Rateable Value 2017	£9,425.5k	£2,485.9k	£2,247.8k	£1,598.4k	£3,093.4k
Change	£1,025k	£-251.5k	£752.9k	£318.9k	£204.7k
	10.9%	-10.1%	33.5%	20.0%	6.6%
England					
Rateable Value 2023	£67,876.6k	£14,358.0k	£17,857.0k	£16,047.2k	£19,614.4k
Rateable Value 2017	£63,272.7k	£15,952.2k	£13,977.3k	£14,547.0k	£18,796.2k
Change	£4,603.9k	-£1,594.2k	£3,879.6k	£1,500.2k	£818.2k
	7.3%	-10.0%	27.8%	10.3%	4.4%

Table subject to roundings

2.3 In normal circumstances the business rate multiplier is reset following the revaluation to ensure the overall yield from business rates is not increased (or reduced). This would have seen a reduction in the multiplier for 2023-24 due to the increase in rateable values. The multiplier would then be increased for annual inflation linked uplift. However, for 2023-24 the Chancellor confirmed in the Autumn Statement 2022 that the multiplier would be frozen at the same level as 2022-23 (49.9p in the £) and local authorities would be compensated for the impact on business rate retention. The revaluation meant there was share of the inflationary uplift built into the business rate retention (equivalent to 3.7% for all authorities) with the remainder of the inflationary uplift provided through a separate section 31 compensation grant.

2.4 The government consulted on technical adjustments to the business rates retention system for the impact of the revaluation in September 2022. This consultation was based on the principle that the top-ups and tariffs under business rates retention should be adjusted so that authorities do not gain or suffer as a result of the revaluation and transfers between central and local lists. These principles were broadly supported by respondents. Thus, if an authority

has a £50m increase in its retained share of business rates as a result of the revaluation then top-ups would be reduced by £50m (or tariffs increased by £50m).

2.5 The adjustments will comprise of 3 stages:

- 2023-24 – initial adjustment to tariff and top-ups based on the change in rateable values between the draft VOA list and valuations from business rate actual collections in 2021-22 (as recorded on 2021-22 NNDR3)
- 2024-25 – updated adjustment based on VOA list as at 1/4/23 and valuations from business rates actual collections in 2022-23 (as recorded on 2022-23 NNDR3) PLUS one off reconciliation to the 2023-24 adjustment using the updated data
- 2025-26 – removal of the one-off reconciliation

2.6 The adjustment is a complex calculation. The overall baseline for business rates in the local government finance settlement for 2023-24 was £194.9m, an increase of £7.0m over 2022-23 reflecting the 3.7% increase. This was set out in the budget report for County Council approval on 9th February. Within this the top-up after adjustment increased by £2.4m (1.7%) with the adjustment for the revaluation removing £2.7m to allow for the additional retention due to the revaluation.

Analysis of changes in Business Rates by District Council

Appendix 3

An analysis of the significant changes by district authority

	A	B	C	D	E	F	G	H	I	J	K
	Change in Gross Rates	Change in Transitional protection	Change in Reliefs	Changes in Bad Debts & Repay'm'ts	Change in Collection Costs & Disregards	Transitional Protection Payments	(Sum A:F) Change in Net for Distribution	(9% of G) Change in KCC Share of Net for Distribution	Change in Share of Disregards	Change in Share of Collection Fund	(Sum H:J) Change in Total Share for Distribution
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Ashford	4,547.7	-5,189.0	-1,388.7	511.4	44.0	5,189.0	3,714.4	334.3	0.0	1,592.7	1,927.0
Canterbury	3,230.3	-3,577.1	252.5	443.7	-95.2	3,577.1	3,831.3	344.8	0.0	583.9	928.7
Dartford	-522.6	-8,513.4	339.8	-653.6	7.8	8,513.4	-828.6	-74.6	0.0	3,087.9	3,013.3
Dover	9,277.6	-4,971.6	1,353.3	-608.0	564.6	4,971.6	10,587.5	952.9	-121.3	287.0	1,118.6
Folkestone & Hythe	2,625.3	-2,260.0	2,024.2	-51.0	1.8	2,260.0	4,600.3	414.0	0.0	823.4	1,237.4
Gravesham	3,564.7	-3,461.0	301.2	-461.5	-5.3	3,461.0	3,399.1	305.9	0.0	-57.4	248.5
Maidstone	8,627.8	-5,022.8	695.9	2.6	-23.4	5,022.8	9,302.9	837.3	0.0	494.0	1,331.3
Sevenoaks	6,409.2	-4,371.6	82.7	1,232.1	-2.0	4,371.6	7,722.0	695.0	0.0	646.8	1,341.8
Swale	13,952.0	-7,057.5	-2,209.0	-262.4	-508.1	7,057.5	10,972.5	987.5	494.1	908.5	2,390.1
Thanet	5,301.9	-4,272.3	275.4	0.0	0.6	4,272.3	5,577.9	502.0	0.0	879.0	1,381.0
Tonbridge & Malling	15,227.0	-6,035.4	-918.3	-1,100.0	-6.7	6,035.4	13,202.0	1,188.2	0.0	1,578.2	2,766.4
Tunbridge Wells	5,681.8	-4,408.2	711.2	-500.0	-25.3	4,408.2	5,867.7	528.1	0.0	1,037.2	1,565.3
Total Kent	77,922.7	-59,139.9	1,520.2	-1,446.7	-47.2	59,139.9	77,949.0	7,015.4	372.8	11,861.2	19,249.4

Table subject to roundings

