

Audit and Risk Committee Meeting

Monday, 4 July 2016

Dear Councillor

AUDIT AND RISK COMMITTEE - MONDAY, 4 JULY, 2016

Attached is the correct version of the following report which should have been circulated to you when the agenda for the meeting of the Audit and Risk Committee on 4 July 2016 was printed.

Agenda No Item

- | | |
|----|---|
| 11 | Business Rates Appeals (Pages 3 - 8)(REVISED REPORT)
[To note the current position with regard to Valuation Office backlog of non-domestic valuation appeals] |
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If you have any queries about this meeting, please contact the democratic support team:

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Audit and Risk Committee

4 July 2016

Report title

Business Rates Appeals

Accountable director

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Originating service

Revenues and Benefits

Accountable employee(s)

Jayne Owens

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**Report to be/has been
considered by**

Recommendations for noting:

The Committee is asked to note:

1. The level of business rates appeals outstanding with the Valuation Office, and that the Council has assessed the financial risk associated with these appeals and made a suitable provision for potential financial losses in its accounts.

1.0 Purpose

- 1.1 This report is to update the Committee on the Council's current position with regards to the Valuation Office backlog of non domestic valuation appeals.

2.0 Background

- 2.1 At the last meeting of the Committee, it was agreed that a report on the scale of the backlog of non-domestic valuation appeals; the length of time the appeals process is taking and the effect this is having on the Council now and in the future be presented at the next meeting.
- 2.2 Business Rate payers may appeal to the Valuation Office against their business rates bill. The amount of business rates due is based on a property's rateable value. If a successful appeal leads to a reduction in rateable value and funds having to be returned to a business, the Council's income is directly affected.
- 2.3 The Council maintains a Collection Fund which accounts for the receipt of council tax and business rates income and payments to precepting authorities such as Central Government, the Fire Authority and the Police. Due to the timing of those payments and receipts, and the impact of business rates appeals, the Collection Fund may be in surplus or deficit at the end of each financial year. This is then proportionately allocated to each of the authorities, including the Council.
- 2.4 Historically the Council bore none of the risk associated with changes in business rates as a result of appeals. However, from April 2013 the business rate retention system means the costs of all successful valuation appeals are now shared between the Council (49%), Central Government (50%) and the Fire Service (1%).
- 2.5 When compiling the Medium Term Financial Strategy, the impact of the deficit or surplus on the Collection Fund, that will be recovered or is owed to the Council, is taken into account. During the 2014/15 outturn process, a Business Rates Equalisation reserve was established to support the Council in relation to the deficit on the Collection Fund, primarily arising as a result of Business Rates appeals. A forecast deficit has been reflected in the Council's Medium Term Financial Strategy for 2016/17. Funds will be released from the Business Rates Equalisation Reserve to reduce the impact on the Council's General Fund.

3.0 The National Picture

- 3.1 Statistics published by the Valuation Office show that at 31 March 2016 there were just over 300,000 unresolved challenges against the 2010 and 2005 rating lists in England and Wales.
- 3.2 There was a sharp increase in the number of challenges made in March 2015. This coincided with legislative changes stating that most challenges received after 31 March 2015 could only be backdated to 1 April 2015.

- 3.3 The rate at which the Valuation Office is clearing outstanding appeals has reduced recently as resources have been diverted to prepare for the forthcoming national revaluation.

4.0 The Local Picture

- 4.1 The Council receives data from the Valuation Office each month detailing all appeals which have been lodged and whether they have been resolved or remain outstanding. This data is used to calculate the potential financial risk to the Council. Information about the outcome of past appeals is used to predict the likely outcome of those which are outstanding. This information is used to ensure that an appropriate provision has been made in the Council's accounts to mitigate this risk.
- 4.2 During 2015 the Valuation Office received an average of 39 appeals per month in respect of Wolverhampton properties, except for March 2015 when they received 1,057.
- 4.3 At 31 March 2016 there were 1,514 appeals for Wolverhampton outstanding with the Valuation Office.
- 4.4 The average time taken by the Valuation Office to process appeals has been 52 weeks.
- 4.5 Of all appeals lodged for Wolverhampton since April 2013 27% have been successful and the average loss of rateable value for these appeals has been 20%.
- 4.6 The appeals position in Wolverhampton is comparable to other similar councils throughout the country.
- 4.7 As detailed in paragraph 2.3, the Council maintains a Collection Fund which accounts for council tax and business rates receipts and payments. In accordance with accounting standards, the impact of outstanding appeals must be provided for within the Collection Fund accounts based upon the likelihood of success; the potential cost is therefore provided for in advance of the Valuation Office resolving appeals. The backlog in reviewing appeals therefore provides an element of uncertainty to the Council.

5.0 The Future

- 5.1 Looking ahead the next revaluation, which will come into effect in April 2017, is likely to bring a fresh wave of business rate appeals which will increase the financial volatility faced by all councils.
- 5.2 In October 2015 the government announced that they are proposing a move to 100% rates retention by the end of this parliament. This would mean that the Council would retain all of the business rates that it collects but also bear 100% of the costs of any successful appeals.
- 5.3 However the Government also plans to introduce a new appeals system, which it believes will reduce the number of long-term appeals in the system and discourage speculative appeals. Details are available in the consultation paper Check, challenge,

appeal: reforming business rate appeals. This system is to be introduced as of 1 April 2017, under sections 31 and 32 of the Enterprise Act 2016.

6.0 Financial implications

- 6.1 Based on the level of outstanding appeals as at 31 March 2016, the Council has accounted for an appeals provision totalling £12.2 million within the Collection Fund.
- 6.2 Of the in-year charge to the Collection Fund Statement for business rates, 49% of the accumulated surplus or deficit will be retained by the Council.
- 6.3 In January 2016 it was estimated that there would be an accumulated deficit totalling £6.7 million on the 2015/16 Collection Fund, consisting of a £2.6 million projected surplus on Council Tax and a £9.3 million projected deficit on Business Rates. Of the overall estimated Collection Fund accumulated deficit, the Council will retain £2.2 million; this has been reflected in the Council's Medium Term Financial Strategy for 2016/17. This cost to the Council will be offset in part by a £1.6 million contribution from the Business Rates Equalisation reserve, which was established during the 2014/15 closedown process to reduce the impact on the Council's General Fund, arising primarily as a result of Business Rates appeals.

[MH/22062016/A]

7.0 Legal implications

- 7.1 There are no legal implications arising from the recommendation in this report.
[Legal Code: TS/17062016/Q]

8.0 Equalities implications

- 8.1 There are no equalities implications arising from the recommendation in this report.

9.0 Environmental implications

- 9.1 There are no environmental implications arising from the recommendation in this report.

10.0 Human resources implications

- 10.1 There are no human resources implications arising from the recommendation in this report.

11.0 Corporate landlord implications

- 11.1 The Council is able to appeal the rateable value of its own properties in the same way as any other business rates payer.

12.0 Schedule of background papers

- 12.1 Check, challenge, appeal: consultation on reforming business rate appeals
<https://www.gov.uk/government/consultations/reforming-business-rates-appeals-check-challenge-appeal>
- 12.2 October 2015 Chancellor unveils “Devolution Revolution”
<https://www.gov.uk/government/news/chancellor-unveils-devolution-revolution>

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