



Finance Committee – Supplementary Agenda

Date: TUESDAY, 9 NOVEMBER 2021
Time: 1.45 pm
Venue: COMMITTEE ROOM - 2ND FLOOR WEST WING, GUILDHALL

7. RENTAL INCOME UPDATE
Report of the Chamberlain.

Item received too late for circulation in conjunction with the Agenda.

John Barradell
Town Clerk and Chief Executive

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ITEM 7

Committee(s):	Date:
Finance Committee – For Information	9 th November 2021
Subject: Key Income Collection Update	Public
Report of: Chamberlain	For Information
Report author: Phil Black – Head of Financial Shared Services	

Summary

This report provides an update on collection performance for the City of London's key income streams, Investment Property, Operational Property, Business Rates and Council Tax. The report also provides a general update on issues relating to Business Rates and Council Tax and their potential impact on City income.

The City's key income streams, particularly those that are based in the retail sector have been severely impacted by the Covid-19 Pandemic.

Business Rates income had initially recovered well during 21/22 but when the enhanced retail relief came to an end in July the collection rate has dropped. It is expected that this will improve again before year end and continues to be closely monitored. Council Tax collection continues to improve and is almost back to pre-covid levels.

Investment property income continues to improve with total arrears at £29.4m (£27.2m of which is rent) including £2.9m deferrals. Deferrals are now being paid which is contributing to the improvement. The moratorium on recovery action continues to be a concern and the full impact on Investment Property of the pandemic may not be evident until these restrictions are lifted.

Operational Property Arrears began to be closely monitored from October 2020. They are decreasing with deferrals now beginning to fall due. A detailed report is being submitted to Corporate Assets Sub Committee in November giving further details of Operational Property Arrears and Tenant Support.

Income collection figures continue to be monitored closely and are fed into the thinking and assumptions in the MFTP. Whilst uncertainty remains around final collection figures, current forecasts on City Fund have not hit the risk triggers that were put in place as part of the pandemic response.

Recommendations

Members are asked to:

- note the contents of the report.

ITEM 7

Main Report

Background

1. As a result of the Covid-19 Pandemic the City's key income streams have been placed under unprecedented pressure. Initial 2020 forecasts for the eventual Income outturn looked bleak. Improvements were made in some areas, particularly Business Rates and Council Tax where the overall impact was less than initially feared.
2. There is still some significant uncertainty around the eventual outcome for both investment and operational property arrears but improvements are being seen. The support provided to businesses through the deferral scheme appear to have been successful with most businesses now meeting their obligations to repay these amounts.
3. All property income is being closely monitored. The level of collection is a key indicator and is feeding in to the assumptions being made in the MTFP. The current forecasts for City Fund are still within target and have not hit the risk triggers that were put in place as part of the response to the pandemic. However, there is still risk across the property portfolio as the full impact of the pandemic on business may not become apparent until recovery action can be initiated. Further details on triggers and risk are detailed in the Monthly Risk Management Report.
4. The Autumn Government budget for 22/23 included the long anticipated fundamental review of Business Rates. The report was limited in scope and it is expected that further consultations relating to the future of business rates will be published over the coming months.
5. The report reaffirmed the Government's intention to continue with Business Rates as a tax and confirmed a move to three-year valuations from 2023. This change should make the business rates more responsive to economic fluctuations.
6. The Chancellor announced a continuation of business rates relief of 50% (up to a limit of £110,000 per business) to the retail, leisure and hospitality sector. Further reliefs were announced relating to property improvement's and onsite renewable energy generation. These reliefs will be fully funded by Government
7. It was also confirmed that the Government will freeze the business rate multipliers at 49.9p (small business multiplier) and 51.2p (standard multiplier). This will mean that businesses will not receive an increased business rate bill in 2022/23 unless the City took the decision to increase the City Premium.

ITEM 7

Current Collection Rates

8. Below are the collection rates over the last three years as at 1st November and trends are analysed in the following paragraphs:

	2019/20	2020/21	2021/22
Business Rates	76.12%	70.12%	70.08%
Council Tax	63.01%	55.62%	61.03%
Investment Property	96.94%	82.60%	83.41%
Total Operational Property Arrears*	N/A	£10.8M	£9.8m

*not previously recorded in 19/20. – Figures include Smithfield Commercial Offices but not domestic properties.

Business Rates

9. Business rates collection was anticipated to fall in 20/21 by up to 6% due to the pandemic impact. However, by year end collection was less than 3% down on the previous year.
10. From April to June in 2021/22 the collection rate has remained within 3% of pre pandemic levels. However, the ending of the 100% hospitality and retail relief at the end of July has resulted in a reduction in the collection rate.
11. The proportion of business rates payable by the retail and leisure sector amounts to around 8% of the total 2021/22 collectable debit, but the first bills in this sector could only be issued from July with first payments due from August. It is this sector that has been most severely impacted and collection from some of these businesses will be difficult. Despite this, it is fully expected that the collection rate will catch up prior to the end of the financial year as these bills are paid.
12. Whilst the collection rate is a slight concern it will not have a material impact on the overall amount that the City receives from the Business Rate Retention scheme. Contingencies such as the bad debt provision assumed in the NNDR1, particularly around retail, reduce any significant risk. Business Rates is also split between Government, GLA with the City, so any reduction is limited to the 30% City share.
13. The recent autumn budget and Business Rates announcements made no mention of an end to the current business rate retention scheme, which means that the City will continue to benefit from the growth achieved since 2017.

Council Tax

14. Council Tax collection has recovered well and is almost back to pre-covid levels.
15. The recent budget announced that the Adult Social Care charge for 2022/23 is expected to be limited to a 1% increase which is a change from the previous year's limit of up to 3%.

ITEM 7

16. The City is also likely to have the option to increase the Council Tax by up to 2% before triggering a referendum. This will mean that the maximum increase for Council Tax would be 3% in total and would result in an increase of income of approximately £235K.

Property Income

17. The Government Moratorium against taking Enforcement action for non-payment of rent and other related property arrears has been extended until March 2022 making recovery difficult.
18. The current arrears for Investment Property is £29.4m as at 1st November 2021. £27.2m of this relates to rent and £2.9m is on an agreed deferral. At the same point in 2020 arrears stood at £30.2M with £27.9m relating to rent and £9.8m subject to a deferral.
19. The Operational Portfolio has arrears of around £9.8m which includes the Smithfield Commercial Offices. The £5.4m relating to residential HRA properties including the service charges in dispute at Great Arthur House are excluded.
20. The Chamberlain's Income Team continues to work closely with Asset Managers in City Surveyors to negotiate payment arrangements and agree repayment plans. This continues to work well but it is accepted that the full impact on property income may not be known until enforcement action is permitted.

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