Committee(s): Finance Committee	Dated: 03/05/2022
Subject: Key Income collection update	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	n/a
Does this proposal require extra revenue and/or capital spending?	N
If so, how much?	n/a
What is the source of Funding?	n/a
Has this Funding Source been agreed with the Chamberlain's Department?	n/a
Report of: The 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 recovered well during 21/22 with in-year collection around 2.07% down on the pre pandemic levels, and nearly 1% up on 20/21. Council Tax collection continues to improve and is almost back to pre-covid levels.

Investment property income continues to improve with total arrears at £20.2m (£16.6m of which is rent) including £1.43m deferrals. Deferrals are now being paid which is contributing to the improvement. The moratorium on recovery action has now been lifted but there are limitations on recovery action that remain in place, so the full impact on Investment Property of the pandemic may not be evident for some months.

Operational Property Arrears began to be closely monitored from October 2020. They are decreasing with deferrals being paid. A detailed report is being submitted to Corporate Assets Sub Committee 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. 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.

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 2020/21 forecasts for the eventual Income outturn looked bleak. Improvements were made in some areas, particularly Business Rates and Council Tax where the overall impact has been 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 into 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 full 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 during the coming year.

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 and this was applied to all eligible business rate accounts for 2022/23. Further reliefs were announced relating to property improvements and onsite renewable energy generation. These reliefs will be fully funded by Government but guidance on their application has yet to be published.

7. Billing for Business Rates was successfully completed. The freeze to the business rate multipliers at 49.9p (small business multiplier) and 51.2p (standard multiplier) has meant that the only increase to business rate bills was the increase to the City Premium.

Current Collection Rates

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

	2019/20	**2020/21**	**2021/22**
Business Rates	97.36%	94.37%	95.29%
Council Tax	97.8%	94.4%	96.3%
Investment Property (Quarter Day -1)	98.7%	85%	84.53%
Total Operational Property Arrears*	N/A	£9.3M	£8.4M

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

Business Rates

9. Business Rates collects approximately £1.2 Billion per annum. This is not a fixed target as factors such as reliefs, deletions and new properties will change the collectable debit. For these same reasons 100% collection would be impossible to achieve. However, the percentage in-year collection rate provides a key indicator for how Business Rate collection has performed.

10. 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. This has improved again during 21/22 and collection is just over 2% down on pre pandemic levels.

11. In order to assist Businesses, the Business Rate Team has accepted longer and more flexible arrangements to collect business rates. this coupled with the ending of the 100% retail relief in July will also have had an impact on the collection rate.

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 in 2022/23 from the growth achieved since 2017.

14. The City will launch a Covid Additional Restriction Relief scheme (CARF) in the coming months. The government scheme requires local authorities to provide an allowance against ratepayer NNDR liabilities, rather than pay as a grant to the business. The City's proposed scheme will provide relief of approximately 20% against the net 2021/22 NNDR liability of approximately 13,900 office properties that meet the scheme's eligibility criteria.

Council Tax

15. Council Tax collection has recovered well and is almost back to pre-covid levels. Council Tax collect approximately £9 million in Council Tax per annum. This is not a fixed target as changes occur throughout the year so achieving 100% collection is impossible. However, the percentage in-year collection rate provides a key indicator for how Council Tax collection has performed

16. There are two areas that continue to impact collection. Serviced apartments are still reporting low occupancy rates and as a result the liability for Council Tax has fallen on the Landlord. The Council Tax team has attempted to provide flexibility around payment arrangements, and this will have impacted on the collection figure. The reduction in the number of students living in the City has also meant than many landlords have now had to meet Council Tax liabilities for their properties, where previously a student exemption had been applied. This has also been a challenge to collection.

17. The Council Tax Team will be administering the Council Tax Energy Rebate scheme during May. This is a payment of £150 to all properties in Band A – D. The City has taken the opportunity to increase the take up of Direct Debit as this provides an easy way to check bank details before payment is made. For those residents who do not pay by Direct Debit, an application portal has been created and eligible residents will be written to explaining how they can claim their payment. A discretionary scheme will also be launched later in the year.

Property Income

18. The Government Moratorium against taking Enforcement action for non-payment of rent and other related property arrears was extended until March 2022 making ongoing recovery challenging. This has now been lifted and the City is considering recovery strategies for those tenants and leaseholders who refuse to engage and agree repayment plans to clear arrears.

19. The current arrears for Investment Property are £20.2m as at the end of Q4, £16.6m of this relates to rent and £1.43m is on an agreed deferral. At the same point in 2021 arrears stood at £26.5M with £23.2m relating to rent and £6.3m subject to a deferral. This shows a significant improvement and demonstrates that the deferral scheme was particularly effective, together with other asset management proposals such as providing extra lease lengths (5 years) with the provision of open market rent frees to tenants, if they were to sign up for longer.

20. The Operational Portfolio has arrears of around £8.7m 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.

21. 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 full enforcement action is permitted.

Phil Black
Head of Financial Shared Services
T: 020 7332 1348 E: phil.black@cityoflondon.gov.uk