Report of the Director of Policy and Resources

Agenda Item No: 7
Meeting: 10 December 2013

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

SETTING THE NON-DOMESTIC RATES TAX YIELD FOR 2014-15

1. **OBJECT AND KEY POINTS IN THIS REPORT**

1.1 To consider and approve the North Lincolnshire National Non Domestic Rates (NNDR) Tax Yield for 2014-15.

2. BACKGROUND INFORMATION

2.1 Under arrangements introduced from 1st April 2013 the total business rate for England is shared 50/50 between central and local shares. The local share is then allocated to individual councils in proportion to the amount of business rates they collected in 2010/11 and 2011/12 and increased by inflation each year. The government uses the central share to fund any grants it makes to local government.

2.2 The new funding regime therefore has three elements:

a) Formula grant funding from government
b) The local share of business rates
c) Council tax

2.3 Each year the Council is required to estimate the amount of NNDR it believes it will collect in the following financial year and make a return, the NNDR 1, to Government. This is the purpose of this report.

2.4 However there are restrictions on how much of the *local share* of business rates councils like North Lincolnshire can retain. That is because the government wants to protect areas which currently depend most heavily on central government funding. It used the 2012/13 local government settlement to derive a *start-up funding assessment* for each council. This means it will continue to redistribute business rates from authorities with large tax bases to those with smaller tax bases relative to their needs. It will do this by applying a *tariff* to some councils in order to provide a *top-up* to others. This comes out of the local share and the tariff for 2014/15 for North Lincolnshire will be £9.7m. This is fixed for seven years, up-rated annually in line with RPI.

2.5 The NNDR1 return therefore estimates the amount of NNDR the council will collect for the following year 2014/15. Half of this total must be paid over to Central Government, with a further one percent share being paid to the Fire Authority as a local precepting body. Humberside Police are funded outside the new system through grant. Any *tariff* is then

paid from the remaining portion. If the sum remaining after all these payments are made is more than the share of NNDR funding the government has determined for the council it must pay a levy of 25% on the excess.

2.6 What this means is that the council can retain a proportion of any growth in business rate income after adjusting for annual inflation. There is a levy of a further 25% on 'excessive' growth after the 50/50 central/local shares are determined. It is intended to tie councils more directly to the fortunes of the local economy and to give them a greater incentive to take a more active role in promoting economic prosperity.

2.7 There are, of course, risks that the council's funding will fall in circumstances of recession or economic decline. For this reason the government guarantee a minimum level of funding for each council if actual NNDR receipts are lower than their Baseline Funding level. Councils are guaranteed to receive 92.5% of the baseline funding level, so for North Lincolnshire Council the maximum loss for 2014/15 is £5.1m equivalent to a 9% increase in council tax. If receipts fall by more than this amount, the council will receive a payment from government under its Safety Net scheme.

2.8 Under the scheme North Lincolnshire Council has an opportunity to offset future reductions in central funding by growth in its business base, but it is also unusually reliant on a small number of businesses paying large amounts of NNDR. That includes TATA steel and a number of refineries and power stations which comprise a substantial part of the local tax base. This council is the only Humber authority which is a tariff authority; all others will receive a top-up grant. For the same reason there is a greater volatility in the local taxbase due to appeals against rating valuations. The government has allowed for successful appeals by reducing its estimate of the national NNDR tax income.

2.9 As a final point the Government will continue to set the parameters of the scheme including the business rate to be levied so there is no change for businesses that pay this tax.

3. OPTIONS FOR CONSIDERATION

3.1 The NNDR tax base is the basis for calculating the net NNDR yield in 2014-15. The Government specifies the sources to be used for most of the data used in this calculation. This includes the tax yield measured at the end of September in the prior year modified by reliefs and losses. The council has discretion in two important areas. It is required to estimate the amount of growth or decline in the taxbase, and the impact of any appeals it expects in 2014/15.

3.2 An assessment has therefore been made of the potential growth or reduction in the taxbase in 2014/15. The main factors affecting the forecast of growth is the mothballing of Keadby Power Station and general growth in the tax base. The impact of Keadby Power Station is likely to be significant but may not be known for some time.

3.3 The Valuation Office Agency (VOA), the government agency responsible for valuing domestic and non-domestic properties, are able to provide some assistance on the number of appeals outstanding. There are currently over five hundred appeals outstanding with rateable values up to £9.95m. An estimate of the impact on the taxbase for 2013-14 has been calculated and included in the NNDR 1 return. Around one third of the taxbase

is under appeal and these appeals if successful will result in refunds covering four years. The original proposals meant councils would stand the whole of this cost in 2013-14. This is the option the Council took when setting the 2013/14 budget. On the 16th January the Government announced that Councils would have the option to spread the costs of refunds relating to prior years over five financial years, starting in 2013/14. To maximise council funding in future years it is proposed that the council reaffirms its current approach.

The latest information from the VOA shows that in this area 40% of appeals are successful and the reduction in the rateable value of an asset where there is a successful appeal is 7%. This information has been used to estimate the impact of currently outstanding appeals.

3.4 The government has established a number of schemes to allow firms to defer increases in tax which arise after the five yearly valuations, the latest in 2010, or due to inflation. It will continue to compensate the council for the effects of providing transitional relief.

3.5 There are other provisions in the new rate retention scheme which will fall in the council's favour. It will retain any NNDR paid by new renewable energy plants which are brought on stream. A number are planned, but will take time to develop, so only the increase in the rateable value of a renewable energy power station on Flixborough Industrial Estate is included in the 2014/15 estimate. Any growth in the NNDR tax yield on the Enterprise Zone will not be retained by the council but will be available for economic development in the Humber sub-region through the LEP in full.

4. ANALYSIS OF OPTIONS

4.1 The net NNDR tax yield for 2014-15 is estimated to be £88.464m. After allowing for transitional relief arrangements it is estimated to be £88.068m.

4.2 This is the best current estimate of the 2014/15 yield and so there are no other options to consider. The council will be able to adjust its estimate through the NNDR1 return mid-year; and substitute the actual in the NNDR 3 return after the period has closed; but for budgeting purposes this is the tax yield to be used for 2014/15. As with Council Tax any surplus or deficit on the Business Rates element of the collection fund is applied to the budget in the following year.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 It is estimated that by setting the NNDR tax base at £88.464m the council will retain funding of £32.685m. This is after deduction of the central share, the Fire Authority share, a tariff payment of £9.754m and a levy payment of £0.907m. That gives the council £3m more than the council's inflation adjusted NNDR Baseline Funding Level, and this additional sum will be taken into account in the council's forward financial planning. This is £0.137m more than previously assumed in the budget.

5.2 Future prospects for the area are fair with the focus being on renewable energy sites, on which the council will retain all the growth and the potential development of the Able UK Energy and Logistics parks. However it is vital existing high value sites in the area are retained. The loss of any one of the seven highest valued sites would lose the council

over £2m of funding. The impact of losing one of the two largest sites would be a loss of income of £5.1m and would trigger the safety net scheme.

5.3 Although the scheme does bring some opportunities it also increases the risks to the council's finances. Experience shows that the tax yield can be volatile. The council will therefore have to maintain a higher level of balances than it would otherwise require due to this additional risk.

5.4 Material changes to the assumptions underpinning the NNDR yield may come to light before the final return is due at the end of January. It is suggested that the power to change the NNDR yield due to material changes in circumstances is delegated to the Director of Policy and Resources and Policy and Resources Cabinet Member.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1 Regulations under the Local Government Finance Act 2012 specify that the council must approve its NNDR tax yield and notify Central Government by returning the NNDR 1 form by 31January.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1 N/A

8. RECOMMENDATIONS

8.1 That Council set an estimated NNDR tax yield for 2014-15, before transitional arrangements, of £88.464m

8.2 That the Secretary of State and Humberside Fire Authority be duly notified.

8.3 That the Director of Policy and Resources in consultation with the Policy and Resources Cabinet Member be delegated the authority to make amendments to the NNDR tax yield if one or more material changes of circumstance occur before the final return is due.

DIRECTOR OF POLICY AND RESOURCES

Civic Centre
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB
Author: Mark Kitching
Date: 14 November 2013

Background Papers used in the preparation of this report

Local Government Finance Act 2012

Appendix A

NATIONAL NON-DOMESTIC RATES 2014-15	North Lincolnshire	
Number of hereditaments on the rating list 30 Sept 2013	**5,311**	
	£	
Aggregate rateable value on the rating list on 30 Sept 2013	**213,339,944**	
		£
GROSS CALCULATED RATE YIELD (multiplier 0.476)		**101,549,813.34**
RELIEFS		
Total mandatory reliefs		5,885,615.65
Total discretionary reliefs		176,893.51
Gross Rate Yield after reliefs		**95,487,304.18**
Estimate of 'losses in collection'		910,863.00
Allowance for Cost of Collection		253,780.44
Renewable Energy Schemes		
Total estimated value to be retained in 2013-14		218,960.00
Net Rate Yield excluding transitional arrangements and rate retention	**94,103,700.74**	
Local authority's estimate of adjustment due to appeals		5,640,000.00
Net Rate Yield excluding transitional arrangements but after rate retention adjustments	**88,463,701.00**	
Net cost of transitional arrangements		394,870.40
Net Rate Yield after transitional arrangements and rate retention	**88,068,831.00**	