Report of the Director of
Policy and Resources

Decision to be implemented
with immediate effect
28 January 2015

NORTH LINCOLNSHIRE COUNCIL

POLICY AND RESOURCES CABINET MEMBER

SETTING THE NON-DOMESTIC RATES TAX YIELD FOR 2015-16

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To set the National Non Domestic Rate Tax Yield for 2015-16.

1.2 To approve the NNDR 1 form for release. This must be sent to the Department of Communities and Local Government and Humberside Fire and Rescue Service by 31 January 2015.

1.3 This decision is urgent because the final version of the form, received on 12 January, must be approved by 31 January.

2. BACKGROUND INFORMATION

2.1 Under arrangements introduced from 1 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 current 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 2015/16 for North Lincolnshire will be £9.9m. This is fixed for seven years, up-rated annually in line with the Retail Price Index (RPI). This increase has been capped to

2% from 2014/15 with the Government providing grant to compensate Councils for the loss of revenue.

2.5 The NNDR1 return therefore estimates the amount of NNDR the council will collect for the following year 2015/16. Half of this total must be paid over to Central Government, with a further one percent share being paid to the Humberside Fire and Rescue Service 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 is now able to 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 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 2015/16 is £7.5m equivalent to a 13.3% 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. This council is the only Humber authority which is a tariff authority; all others will receive a top-up grant. The government has allowed for successful appeals by reducing its estimate of the national NNDR tax income.

2.9 Central Government will continue to set the parameters of the scheme including the business rate to be levied, the reliefs on offer, the level of any cap and the point at which the scheme is reset.

3. OPTIONS FOR CONSIDERATION

3.1 The NNDR tax base is the basis for calculating the net NNDR yield in 2015-16. 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 2015/16.

3.2 An assessment has therefore been made of the potential growth or reduction in the taxbase in 2015/16. The main factors affecting the forecast of growth are the impact of appeals and general growth in the tax base. The impact of appeals may be significant but the most significant appeals can take some time to be resolved.

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 two hundred and seventy appeals appeals outstanding with rateable values up to £31m. This is a substantial decrease from last year but the largest appeals remain outstanding. These include appeals against all five of the area's five Power Stations Rateable values (RV). Overall around one third of the taxbase is under appeal and these appeals if successful will result in refunds covering up to five years. The effect of a successful appeal for the power stations could be substantial but a provision calculated on a risk basis has been included in the 2015/16 NNDR 1 return for these and other appeals.

The latest information from the VOA has been used to estimate the impact of currently outstanding appeals.

3.4 The council will retain any NNDR paid by new renewable energy plants which are constructed. 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 and the Keadby Wind Farm is included in the 2015/16 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.

4. ANALYSIS OF OPTIONS

4.1 The net NNDR tax yield for 2015-16 is currently estimated to be £89.519m.

4.2 **This is the best current estimate of the 2015/16 yield and so there are no other options to consider.**

4.3 The council will 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 2015/16. 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 £89.519m the council will retain funding of £35.375m. This is after deduction of the central share, the Fire Authority share, a tariff payment of £9.856m and a levy payment of £1.172m. That gives the council £5.268m 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 £0.105m more than previously assumed in the budget.

5.2 Future prospects for the area are encouraging with the focus being on renewable energy sites, on which the council will retain all the growth and the development of the Able UK Energy and Logistics parks, along with the anticipated increase in house building in the area and the general optimism regarding inward investment, e.g. Airport, Hotel, Town Centre UTC.

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 its level of balances accordingly.

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 2015.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1 N/A

8. RECOMMENDATIONS

8.1 That an estimated NNDR tax yield for 2015-16 is set at £89.519m.

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

DIRECTOR OF POLICY AND RESOURCES

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Background Papers used in the preparation of this report

Local Government Finance Act 2012

Autumn Statement

Appendix 1

	£'000
Total Rateable Value (RV)	**211,840**
Business Rate Multiplier for 2015/16	**0.480**
Gross Tax Yield (RVx.480)	**101,683**
Reliefs	-5,909
Provision for Appeals	-4,500
Provision for losses on collection	-606
Retained Amounts	
Cost of Collection	-251
Renewable Energy Rates	-898
Net Tax Yield	**89,519**
Shared:-	
Central Government	44,760
North Lincolnshire Council	43,864
Fire and Rescue Service	895
	89,519