Report of the Director of Policy and Resources

Decision to be implemented with immediate effect - 31 January 2014

NORTH LINCOLNSHIRE COUNCIL

POLICY AND RESOURCES CABINET MEMBER

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.

1.2 An earlier report has been considered by Council on 10 December 2013. A tax yield could not be finalised at that time because of changes made to the business rate multiplier and various reliefs as part of the Chancellor's autumn statement. The matter was referred to Cabinet for consideration. Cabinet were unable to make a final decision as the final version of the form had not been issued. The matter was delegated to the Director of Policy and Resources, in conjunction with the Cabinet Member Policy and Resources for a decision.

1.3 This decision is urgent because the NNDR Tax Yield must be reported back to the Department for Communities and Local Government on the NNDR 1 form by 31 January 2014. The final version of this form was only released on the DCLG website on 28 January 2014.

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 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 £9.6m. This is fixed for seven years, up-rated annually in line with the Retail Price Index (RPI), although in 14-15 the increase has been capped to 2%.

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 £2.9m equivalent to an 5% 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. These businesses include Tata Steel, two oil refineries and power stations which together 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 tax base due to appeals against rating valuations. The government has allowed for some successful appeals by reducing its estimate of the national NNDR tax income.

2.9 The Chancellor's autumn statement included the following changes to the business rates regime:-

- capping the Retail Prices Index increase in business rates to 2% (RPI was 3.2%) in 2014-15 and extending the doubling of Small Business Rate Relief to April 2015

- providing a business rates discount of up to £1,000 in 2014-15 and 2015-16 for retail properties (including pubs, cafes, restaurants and charity shops) with a rateable value (RV) of up to £50,000, and a 50% discount from business rates for new occupants of previously empty retail premises for 18 months

Both of these changes would reduce the amount of NNDR collected by Local Authorities. Central Government has confirmed that Local Government will be reimbursed for the costs of these changes. It is estimated that the cap would have cost this council around £450k.

2.10 As a final point the Government will continue to set the parameters of the scheme including the business rate to be levied 47.1p/£RV in 2014-15.

3. OPTIONS FOR CONSIDERATION

3.1 The NNDR tax base is the basis for calculating the net NNDR tax 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 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 three hundred and twenty appeals outstanding with rateable values up to £31m. An estimate of the impact on the tax base for 2013-14 and 2014-15 has been calculated and included in the NNDR 1 return. Around 40% of the tax base is under appeal and these appeals if successful will result in refunds covering several 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. In early 2013 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 has been used to estimate the impact of currently outstanding appeals.

3.3 An assessment has also been made of the potential growth or reduction in the tax base in 2014/15. The main factors affecting the forecast are the addition of the Marks and Spencer development, the mothballing of Keadby Power Station and other outstanding appeals mentioned above. The impact of Keadby Power Station is likely to be significant but may not be known for some time.

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 and the Keadby Wind Farm is included in the 2014/15 estimate. In later years the construction of two renewable power stations, near Brigg is assumed. Any growth in the NNDR tax yield on the Enterprise Zone will not be retained by the council but will be available, in full, for economic development in the Humber sub-region through the LEP.

3.6 Growth in the wider tax base is assumed to occur from a number of projects. In 2014/15 it is assumed the Marks and Spencer development will be completed during the second quarter.

4. ANALYSIS OF OPTIONS

4.1 The net NNDR tax yield for 2014-15 is estimated to be £81.792m.

4.2 This is the best current estimate of the 2014/15 yield and so there are no other options to consider.

4.3 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 £81.792m the council will retain funding of £30.221m. This is after deduction of the central share, the Fire Authority share, a tariff payment of £9.636m and a levy payment of £0.221m. That gives the council £0.7m more than the council's inflation adjusted NNDR Baseline Funding Level. Additional sums of £1.6m will be provided by Government to offset the changes that have been made to the Business Rates regime and it is estimated £0.8m will be received for renewable energy plants. Finally there will be a £1.0m net carry forwards from 2013-14. The total receivable for NNDR, above the baseline funding will therefore be £4.3m in 2014-15. This is £1.2m more than previously assumed in the budget, and this additional sum will be taken into account in the council's forward financial planning.

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 development of the Able UK Energy and Logistics parks. However it is vital existing high value sites in the area are retained. The total rateable value of sites with an RV of £1m or more is over half of the area's total rateable value. The loss of £13.8m RV or more from the council's NNDR tax base would trigger the safety net scheme and the council would lose £2.9m of funding in 2014-15. There are current appeals on several of the largest sites in the area. There is therefore a significant risk of a large decrease in NNDR income.

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 highly volatile. This is a compelling reason to maintain a sufficient level of balances to cover one of the council's major risk factors.

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 a net NNDR tax yield for 2014-15 of £81.792m.

8.2 That the Secretary of State and Humberside Fire Authority 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 2013

Appendix 1 – Non Domestic rates Yield 2014-15

	£
Gross Yield	**97,627,449**
Reliefs	
Small Business Rate Relief	-1,135,027
Mandatory Reliefs	-5,077,432
Discretionary Reliefs	-1,329,837
Other reductions	
Losses on Collection	-606,500
Outstanding Appeals	-7,000,000
Transfers to General Fund	
Cost of Collection	-252,128
Renewable Rates	-832,660
Adjustments	
Transitional Relief	398,427
NON-DOMESTIC RATING INCOME	**81,792,292**
Payments from NNDR Income	
Central Share	-40,896,146
Fire Authority	-817,923
Local Share	-40,078,223
NON-DOMESTIC RATING INCOME	**-81,792,292**