Report of the Director of
Policy and Resources

Agenda Item No:
Meeting: 29 January 2013

NORTH LINCOLNSHIRE COUNCIL

CABINET

SETTING THE NON-DOMESTIC RATES TAX YIELD FOR 2013-14

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To inform members of changes to the National Non-Domestic Rates (NNDR) funding regime from 1 April 2013.

1.2 To explain the opportunities and risks this change will bring.

1.3 To consider and approve the North Lincolnshire NNDR Tax Yield for 2013-14.

2. BACKGROUND INFORMATION

2.1 As part of its agenda to devolve power from the centre the Government is changing the way local government is financed. Business rates (NNDR) which have for many years been centrally pooled, and then redistributed to Councils based on a formula, are now to be partially re-localised. The scheme provides an incentive for councils to grow their local business base as they can retain a proportion of the additional tax income this growth generates.

2.2 Under the new arrangements the total business rate for the whole country will be shared 50/50 between *central and local shares*. The local share will then be allocated to individual councils in proportion to the amount of business rates they collected in 2010/11 and 2011/12. The government will use the central share to fund any grants it makes to local government.

2.3 The new funding regime therefore has three elements:

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

2.4 Each year the Council will now be 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 the report before Cabinet today.

2.5 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 is using 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 North Lincolnshire will be £9.5m. This is fixed for seven years, up-rated annually in line with RPI.

2.6 The NNDR1 return therefore estimates the amount of NNDR the council will collect for the following year 2013/14. 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 will be 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 up to 50% on the excess.

2.7 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. 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.

2.8 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 2013/14 is £2.173m equivalent to a 3.9% 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.

2.9 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. At a national level typically 25% of appeals are successful in reducing the assessed tax liability. The government has allowed for this by reducing its estimate of the national NNDR tax income. However this effectively applies the same rate to all areas and does not allow for local variation.

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

3. OPTIONS FOR CONSIDERATION

3.1 The NNDR tax base is the basis for calculating the net NNDR yield in 2013-14. The Government specifies the sources to be used for most of the data which populates the NNDR 1 form this includes the tax yield at the end of each September 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 2013/14.

3.2 An assessment has therefore been made of the potential growth or reduction in the taxbase in 2013/14.The main factors affecting the forecast of growth are the scheduled closure of the Kimberley Clark plant in Barton-upon-Humber, general growth in the tax base in the final quarter of 2012 and the supermarket developments in Brigg which are forecast to complete during 2013-14. Overall the effect of Kimberley Clark closure is the most significant and the net effect is that a modest reduction in the tax yield is forecast.

3.3 The Valuation Office Agency, 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 would have meant councils would stand the whole of this cost. 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 maintain council funding in future years it is proposed that this council does not take this option.

The Agency estimate that at a national level, around a quarter of appeals are successful and we have made a prudent estimate that, on average, each successful appeal may result in a thirty percent reduction in the NNDR paid on that site. The thirty percent figure was chosen to reflect the risk of the high value sites under appeal being successful.

3.4 The government has established a number of schemes to allow firms to defer increases in tax due to 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 in the offing, but will take time to develop, and so are not included in the 2013/14 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 2013-14 is estimated to be £81.104m. After allowing for transitional relief arrangements it is estimated to be £78.212m.

4.2 This is the best current estimate of the 2013/14 yield and so there are no other options to consider. The council will be able to adjust its estimate through the NNDR2 return mid-year; and substitute the actual in the NNDR 3 return after the period has closed.

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

5.1 It is estimated that by setting the NNDR tax base at £81.104m the council will retain funding of £29.966m. This is after deduction of the central share, the Fire Authority share, a tariff payment of £9.452m and a levy payment of £0.323m. That gives the council £0.988m more than the council’s NNDR Baseline Funding Level, 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. 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.

5.3 Although the scheme does bring some opportunities it also increase the risks to the council’s finances. Experience shows that the tax yield can be volatile. The council will therefore have to re-evaluate its level of balances taking this additional risk into account.

6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)

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. It also required a provisional draft by 7 January. Council on 27 November agreed that the initial draft should be determined by the s151 officer in consultation the cabinet member for Policy and Resources and this has been done. There are no changes proposed in this report to that provisional return.

7. OUTCOMES OF CONSULTATION

7.1 N/A

8. RECOMMENDATIONS

8.1 That members note the changes to the NNDR funding regime.

8.2 That Cabinet set an estimated NNDR tax yield for 2013-14, before transitional arrangements, of £81.104m

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

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Background Papers used in the preparation of this report

Local Government Finance Act 2012

Appendix A

Number of hereditaments on the rating list on 30 September 2012	5,382
	£
Aggregate rateable value on the rating list on 30 September 2012	212,041,092
Gross Calculated Rate Yield (Rateable value multiplied by 0.462)	**97,962,985**
Total Mandatory Reliefs	-7,002,206
Total Discretionary Reliefs	-178,568
Gross Yield after reliefs	**90,782,210**
Estimate of 'losses in collection'	-910,863
Allowance for Cost of Collection	-255,809
Net Rate Yield excluding transitional arrangements and rate retention	**89,615,538**
Estimate of the change in receipts as a result in the change in rateable value	-745,986
Estimated adjustment related to appeals	-7,765,120
Net Rate Yield excluding transitional arrangements but after rate retention adjustments	**81,104,432**
Effect of transitional relief	-2,892,043
Net Rate Yield after transitional arrangements and rate retention	**78,212,390**