

EAST HERTS COUNCIL

COUNCIL – 30 JANUARY 2013

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE

NATIONAL NON DOMESTIC RATES CALCULATION 2013/14

WARDS AFFECTED: All

---

Purpose/Summary of Report

- To recommend to the Council the calculation of the National Non Domestic rates Budget 2013/14.

<b>RECOMMENDATION FOR COUNCIL: that:</b>	
<b>(A)</b>	<b>in accordance with the Non-Domestic Rating (Rates Retention) Regulations 2013 (due to gain parliamentary approval by mid February 2013), the amount calculated by East Herts Council for the year 2013/14 shall be £42,975,193 (net yield after transitional arrangements and rate retention).</b>

1.0 Background

1.1 Under the provisions of the Non-Domestic Rating (Rates Retention) Regulations 2013, by a direction under paragraph 43 of schedule 7B of the Local Government Finance Act 1988, local authorities are required on or before 31st January to estimate and then notify the Secretary of State and any relevant precepting authorities of the amounts of each relevant precepting authority's share of its non-domestic rating income for the relevant year.

Distribution of NNDR.	
Amount to be paid to central Government	£21 543 804
Amount to be retained by East Herts Council (Gross of Tariff)	£17 235 043
Amount to be passed to Hertfordshire County Council	£ 4 308 761

## 2.0 Report

- 2.1 2013-14 is the first year of the rates retention scheme. In brief, under the rates retention scheme, authorities will, from 1 April 2013, retain a percentage of the rates income that they collect. Further percentages will be paid to central government and to an authority's major precepting authorities. (In our case Hertfordshire County Council)
- 2.2 The amount to be retained, and the amounts to be paid to central government and major precepting authorities are to be fixed at the start of the financial year on the basis of the billing authority's estimate of its non-domestic rating income for the year.
- 2.3 Using a revised government form (NNDR, see **Essential Reference Paper B**) which contains details of the rateable values shown in the authority's local rating list at 30 September, the Council is able to estimate the gross yield from business rates to reflect local intelligence about likely increases, or decreases, in the business rates that can be collected for the year.
- 2.4 After certain deductions, including mandatory and discretionary relief and adjustments to reflect losses on collection, this will give the authority's estimated net rating income for the year which will be used to determine the payments that are due to central government. There will be a 50% central share, and to the relevant precepting authorities (Hertfordshire County Council) 10% in the case of EHC. The remainder forms the part of the funding for East Herts.
- 2.5 Billing authorities are also required by the Non-domestic

Rating (Transitional Protection Payments) Regulations 2013 to estimate the amount of the transitional protection payment for the year. This relates to changes in valuations which are phased in after a major revaluation exercise. These occur approximately every five years. (2005, 2010 etc) To help pay for the limits on increases in bills, there also has to be limits on those properties where revaluation leads to reduced bills. This would be used for example if a business would otherwise have a significant increase or reduction in their liability, in excess of government guidelines. The change is instead applied in installments.

2.6 Finally, the draft retention regulations require billing authorities to further deduct from the net income figure, an amount in respect of the cost of collection and for the rates collected in Enterprise Zone areas, New Development Deal areas and from renewable energy hereditaments, as set out in the draft Non-Domestic Rating (Designated Area) Regulations and Non-Domestic Rating (Renewable Energy Projects) Regulations. For East Herts we are currently only impacted by the cost of collection, none of the others apply. The table below demonstrates the stages of calculation.

	<b>Gross Rates Yield</b>
Less	Mandatory Reliefs
Less	Discretionary Reliefs
Less	Losses in collection (Write offs, bad debt provision)
Less	An allowance for costs of collection
Adjusted by changes in	Enterprise zones, New development deals, and Renewable energy schemes (None for East Herts)
Plus	Growth
Less	Successful appeals
Equals	Net Yield (excluding transitional arrangements)
	<b>This is then distributed</b>
50%	Paid to Central Government
40%	Retained by East Herts
10%	Paid to Hertfordshire County Council

2.7 Under the new retention scheme, there are both potential risks and rewards in calculating our share of the yield. The major risks and concerns for the Council are; the level of successful rating appeals that may be made in the year, the

unknown level of bankruptcies and businesses going into administration, the number of empty properties, the number of new properties and the Collection rate achievable. We have to make an estimate of the impact of all these, based on limited trend information.

- 2.8 The rateable value of businesses in East Herts is **£115.5 million** <sup>(NNDR1 Line 2)</sup>. There are currently rating appeals lodged with the government's Valuation Office in respect of rateable values totaling **£41.5 million** with some claims outstanding back to the 2005 rating list (and upon which interest could also be payable). Not all of these will be successful either in full or part. On the 2010 rating list the value of appeals represents **31.5%** of the total rateable value of the district. The cost of any successful appeals would be met from the monies received, and hence there will be a considerable degree of uncertainty and volatility in the actual level of income received by the Council in any one year. The reduction in the NNDR Tax Base from appeals is estimated at **£2,134, 626** <sup>(NNDR1 Line 35)</sup> in 2013/14. This is consistent with previous years expectations.
- 2.9 An assumption has to be made on the expected level of growth within NNDR yield per year. Based on past trends and expected completions during 2013/14, officers are forecasting no net growth over the government's net assumptions.
- 2.10 In summary, after reliefs, adjustments cost of collection and appeals the Council anticipates the net yield to be **£43,087, 607** <sup>(NNDR1 Line 36)</sup> in 2013/14 (before transition costs). This assumes a collection rate of 99% - which is in line with previous performance. The table below shows the respective shares of the **£43,087,607** <sup>(NNDR1 Line 36)</sup>:-

	<b>% Share</b>	<b>Government Assumption (£)</b>	<b>NNDR Calculated Respective Share (£)</b>	<b>Variance (£)</b>
<b>Government</b>	<b>50%</b>	<b>21,555,747</b>	<b>21,543, 804</b>	<b>-11,943</b>
<b>East Herts Council (*)</b>	<b>40%</b>	<b>17, 244,597</b>	<b>17,235, 043</b>	<b>-9,554</b>
<b>Hertfordshire County Council</b>	<b>10%</b>	<b>4,311,149</b>	<b>4,308, 761</b>	<b>-2,388</b>
<b>Total</b>	<b>100%</b>	<b>43,111,493</b>	<b>43, 087, 607</b>	<b>-23,885</b>

(\*) *Gross of tariff*

- 2.11 From 2013-14 our performance on collection of NNDR will directly impact on the resources that the Council has to spend on services for its residents and businesses.
- 2.12 The funding that the Council has is based upon an assessed level of need by the DCLG (Department for Communities and Local Government), that will determine the level of NNDR that the Council either pays over (as a tariff) or receives (as a top-up) to fund services. This is in addition to a Revenues Support Grant.
- 2.13 East Herts is a tariff authority. This means it does not keep its entire share of NNDR but is subject to the payment of a tariff. This figure was determined by the government in the Local Government Finance settlement released at the end of December 2012. The Business Rate Baseline is calculated on the basis of a share of the national total of business rates collected over the last two years. This has been calculated at **£17,244,597** less the DCLG calculation of Baseline funding level of **£2,376,695** (**Tariff = £14,867,902**). The Tariff is payable to the government by the Council in installments throughout the year.
- 2.14 The new business rates retention scheme provides the opportunity for local authorities to share in the benefits of

growth in the rates tax base i.e. provides an incentive for economic development and regeneration. Any income retained from growth is subject to a levy of 50%. Conversely if any Council suffers a significant drop in NNDR due to the loss of one or more major businesses, or a large number of smaller businesses, or a greater than expected loss from revaluations, then a safety net applies. This means that no local authority will suffer more than a 7.5% loss on its net tariff. In our case this is equivalent to a loss of £178k.

- 2.15 The calculation at a local level, based on recent trends, indicates that no levy will be payable in 2013-14. If there is growth in the tax base and the Council collects more than anticipated in the year these figures are all recalculated at year end, in a similar way to that of Council Tax collection, and the adjustments are included in the following year's figures.
- 2.16 Taking all of the above into account, the anticipated level of income to be retained locally from Business Rates in 2013/14 by East Herts Council is calculated to be **£2,367,141 (£17,235,043 - £14,867,902)**.
- 2.17 In relation to this volatility, current estimates have shown that due to the high "gearing" nature of retained Business Rates to the total level of Business Rates generated within the district (**£2,367,141** compared to around **£43,087,607** NNDR1 Line<sup>36</sup>), this only represents 5.5% of the net yield. The level at which the Government safety net will come into force in relation to reductions in the Business Rates is 7.5% or £2,198,443 (being 92.5% of the Government calculated EHC Baseline Funding Level of £2,376,695,) before any support from Central Government were to be forthcoming.
- 2.18 At the year end the Council is required to complete a NNDR3 outturn return. Any differences between this return and the amount calculated in the NNDR1 return will be adjusted in the following year.
- 2.19 Once the NNDR1 form has been certified, it must be returned to the Department for Communities and Local Government by no later than **Thursday 31 January 2013**.

2.20 Should any Member have detailed questions or comments on the assumptions it would be of great benefit to advise the Director of Finance and Support Services or the Executive Member for Finance well in advance of the meeting.

### 3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

### Background Papers

The Local Government Finance Bill 2012

<http://services.parliament.uk/bills/2012-13/localgovernmentfinance/documents.html>

The Local Government Finance Act 2012

<http://www.legislation.gov.uk/ukpga/2012/17/contents/enacted>

Contact Member: Councillor Michael Tindale - Executive Member for Finance  
[michael.tindale@eastherts.gov.uk](mailto:michael.tindale@eastherts.gov.uk)

Contact Officer: Adele Taylor – Director of Finance and Support Services, ext 1401  
[adele.taylor@eastherts.gov.uk](mailto:adele.taylor@eastherts.gov.uk)

Report Author: Su Tarran - Head of Revenues and Benefits, Shared Service, ext 2075  
[su.tarran@eastherts.gov.uk](mailto:su.tarran@eastherts.gov.uk)