EAST HERTS COUNCIL

COUNCIL – 29 JANUARY 2014

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE

NATIONAL NON DOMESTIC RATES CALCULATION 2014/15

WARDS AFFECTED: All

Purpose/Summary of Report

- To recommend to the Council the calculation of the National Non Domestic Rates Budget 2014/15.

RECOMMENDATIONS FOR COUNCIL: that	
(A)	**in accordance with the Non-Domestic Rating (Rates Retention) Regulations 2013, the amount calculated by East Herts Council for the year 2014/15 shall be; £43,031,531 (Non domestic rating income from rates retention scheme) *(part 1b line 14 Column 5)*;**
(B)	**the Section 31 grant in relation to the Business Rates proposals within the 'Autumn Statement' shall be £1,690,873;**
(C)	**the estimated Collection Fund Surplus for 2013/14 of £780,442 be allocated to the constituent bodies as detailed at paragraph 2.22 of the report submitted; and**
(D)	**the Council's share of the estimated 2013/14 NDR Collection Fund Surplus be transferred to a new reserve to be called 'Government Funding Risk Reserve'.**

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 2014/15 NNDR.	*Part 1b Line 14*
Amount to be paid to central Government	£21,515,766
Amount to be retained by East Herts Council (Gross of Tariff & Cost of collection allowance)	£17,212,612
Amount to be passed to Hertfordshire County Council	£ 4,303,153
TOTAL	**£43,031,531**

2.0 Report

2014/15 Non Domestic Rate Forecast

2.1 2014-15 is the second 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 (NNDR1) which contains details of the rateable values shown in the authority's local rating list at 31 December, 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 (40%).

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 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.

	Gross Rates Yield
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)
	This is then distributed
50%	Paid to Central Government

40%	Retained by East Herts
10%	Paid to Hertfordshire County Council

2.7 Under the 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 **£114 917 562 million** **(NNDR1 part 2 Line 1).** There are currently rating appeals lodged with the government's Valuation Office in respect of rateable values totaling **£29.48 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 25.7**%** 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 **£455,204** **(NNDR1 part 2 line 4)** in 2014/15. *This is consistent with previous year's 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 2014/15, officers are forecasting no net growth over government assumptions.

2.10 In summary, after reliefs, adjustments, and appeals the Council anticipate the net yield to be £43,031,531 (NNDR1 Line 14) in 2014/15. This assumes a collection rate of 99% - which is in line with previous performance. The table below shows the respective shares of the £43,031,531 (NNDR1 part 1B Line 14):-

	% Share (Column A)	***Government Assumption*** (Column B) (£)	***NNDR Calculated Respective Share (Column C – A*B)*** ***(£)***	***Variance*** (Column D – B-C) (£)
Government	**50%**	**21 975 664**	***21,515,766*** ***(Part 1b line 24)***	**-459,898**
East Herts Council (*)	**40%**	**17 580 531**	***17,212,612*** ***(Part 1b line 24)***	**-376,919**
Hertfordshire County Council	**10%**	**4 395 133**	***4,303,153*** ***(Part 1b line 24)***	**-91,980**
Total	**100%**	**43 951 328**	***43,031,531*** ***(Part 1b line 24)***	**-919,797**

(*) *Gross of tariff*

2.11 Since 2013-14 our performance on collection of NNDR directly impacts 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 provisional Local Government Finance settlement released at the end of December 2013. 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 £17 580 531 less the DCLG calculation of Baseline funding level of £2 422 898 (Tariff = £15,157, 633) The Tariff is payable to the government by ***the Council in installments throughout the year***.

2.14 The 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 £182k.

2.15 The calculation at a local level, based on recent trends, indicates that no levy will be payable in 2014-15. 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 2014/15 by East Herts Council is calculated to Be £***2,054,979*** **(£*17,212,612*- £15 157 633)**

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 (**£2 054 979***)* compared to around ***£43, 031, 531*** ***(*****NNDR1 part 1B Line 14**), this only represents 4.78% 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 £2 241 180.65, (being 92.5% of the Government calculated EHC Baseline Funding Level of £2 422 898) before any support from Central Government were to be forthcoming. Based on the estimates contained in the 2014/15 NNDR, the safety net arrangements will not be required for the Council in 2014/15.

2.18 <u>Updated 2013/14 Balance on the Collection Fund Account</u>

In addition to the above, the billing authority is required to revise the estimate of the likely balance on the NDR Collection Fund at the end of the current financial year (2013/14) and distribute the surplus or recover the deficit from the constituent bodies.

The balance on the Collection Fund at the end of 2013/14 is estimated to be £780,442,(Part 1B Line 23) to be allocated as follows:

	Allocation %	Constituent Share (Part 1b Line 23) £
Central Government	50	390,221
Hertfordshire County Council	10	78,044
East Hertfordshire District Council	40	312,177
Total	**100**	**780,442**

2.19 The distribution will be undertaken in 2014/15 and amended by the completion of the NNDR3 for 2013/14.

2.20 For the Council, the updated MTFP (Medium Term Financial plan) includes no assumptions on the level of Surplus to be distributed in 2013/14.

Summary

2.21 Based on the calculations at paragraphs 2.1 to 2.17, the amount to be distributed to each constituent body is as follows:

	Cost of Collection Allowance £	Share Allocation %	2014/15 Share £	Allocation of 2013/14 Surplus/Deficit £
Central Government	Nil	50	21,515,766	390,221
Hertfordshire County Council	Nil	10	17,212,612	78,044
East Hertfordshire District Council	197,093	40	4,303,153	312,177
TOTAL	**197,093**	**100**	**43,031,531**	**780,442**

3 <u>'Autumn Statement' – Changes to Business Rates arrangements for 2014/15 – Payment under Section 31 Grant</u>

3.1 The Chancellor of the Exchequer announced the following changes to the business rates system for 2014/15 in the 'Autumn Statement':

i) empty new build properties will be exempt from empty property rates for 18 months (Autumn Statement 2012)

ii) the RPI increase in 2014-15 will be capped at 2% instead of 3.2%;

iii) the doubling of the Small Business Rate Relief will be extended for a further 12 months until 31 March 2015;

iv) ratepayers receiving Small Business Rate Relief that take on an additional property which would currently disqualify them from receiving relief will continue to receive their current relief for 12 months;

v) a discount of £1,000 for shops, pubs and restaurants with a rateable value below £50,000 for two years, from 1 April 2014;

vi) a 50 per cent business rates relief for 18 months for businesses that - between 1 April 2014 and 31 March 2016 - move into retail premises that have been empty for a year or more;

3.2 These changes have reduced the calculation of the 'Net Yield' for distribution in 2014/15 shown above.

3.3 However Central Government undertook to compensate Authorities for the loss of income resulting form the above changes. This will be undertaken through section 31 of the Local Government Act (section 31 grants).

For East Herts the amount payable is estimated to be £1,353,117 (*should be* Part 1C Line 31)

4. Once the NNDR1 form has been certified, it must be returned to the Department for Communities and Local Government by no later than **31 January 2014**.

4.1 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 Resources and Internal Support in advance of the meeting.

5.0 Implications/Consultations

5.1 Officers have endeavored to ensure that the assumptions included in completing the NNDR1 for 2014/15 are robust; reflecting both current performance and known material changes for the near future where relevant information is available.

5.2 It should be noted that the following factors will have a material influence on the NDR's Net Yield and ultimately the Council's retained income under the Rate Retention Scheme:

- the impact of schools taking on Academy status within the district,
- the impact of significant commercial sites changing to Council tax status,
- the valuation office performance in resolving appeals, and
- the issue of final regulations in relation to the Rate Retention Scheme which may alter the accounting and reporting arrangements for appeals.

5.3 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

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