

EAST HERTS COUNCIL

COUNCIL – 27 JANUARY 2016

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE AND
SUPPORT SERVICES

NATIONAL NON DOMESTIC RATES CALCULATION 2016/17

WARDS AFFECTED: All

Purpose/Summary of Report

- To recommend to the Council the calculation of the National Non Domestic Rates Budget 2016/17

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 2016/17 shall be £44,466,980 (Non domestic rating income from rates retention scheme);
(B)	the estimated Collection Fund Deficit for 2015/16 of £5,675,972 be allocated to the constituent bodies as detailed at paragraph 2.18 of the report; and
(C)	the Council's share of the estimated 2015/16 NDR Collection Fund deficit be funded from the Collection Fund Reserve.

1 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.

1.2

Distribution of 2016/17 NNDR1 within Essential Reference Paper 'B'	<i>Part 1b Line 14</i>
Amount to be paid to Central Government	£22,233,490
Amount to be retained by East Herts Council (Gross of Tariff & Cost of collection allowance)	£17,786,792
Amount to be passed to Hertfordshire County Council	£ 4,446,698
TOTAL	£44,466,980

2 Report

2016/17 Non Domestic Rate Forecast

- 2.1 2016/17 is the fourth 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) although, the 2015 revaluation has been deferred to 2017. 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	Enterprise zones, New development deals, and Renewable energy schemes (None for East

changes in	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 **£112,899,479**. There are currently rating appeals lodged with the government's Valuation Office in respect of rateable values totaling **£30.28 million** with a few 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. 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 **£343,701** in 2016/17.
- 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 2016/17, officers are forecasting net growth of £52,250 over government assumptions.
- 2.10 In summary, after reliefs, adjustments, and appeals the Council anticipate the net yield to be £44,461,277 in 2016/17. This assumes a collection rate of 99% which is in

line with previous performance. The table below shows the respective shares of the £44,461,277:-

	% Share (Column A)	Government Assumption (Column B) (£)	NNDR Calculated Respective Share (Column C – A*B) (£)	Variance (Column D – B-C) (£)
Government	50%	22,582,210	22,233,490 <i>(Part 1b line 14)</i>	-348,720
East Herts Council (*)	40%	18,065,768	17,786,792 <i>(Part 1b line 14)</i>	-278,976
Hertfordshire County Council	10%	4,516,442	4,446,698 <i>(Part 1b line 14)</i>	-69,744
Total	100%	45,164,420	44,466,980 <i>(Part 1b line 14)</i>	-697,440

(*) *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 2015. 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 **£18,065,768** less the DCLG calculation of Baseline funding level of **£2,489,772 (Tariff = £15,575,996)** 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 £187k.
- 2.15 The calculation at a local level, based on recent trends, indicates that no levy will be payable in 2016-17. 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 2015/16 by East Herts Council is calculated to Be **£2,210,796 (£17,786,792- £15,575,996)**
- 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 (**£2,210,796**) compared to around **£44,466,980**, this only represents 4.97% 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 £2,303,039, (being 92.5% of the Government calculated EHC Baseline Funding Level of £2,489,772) before any support from Central Government were to be forthcoming. Based on the estimates contained in the 2016/17 NNDR,

the safety net arrangements will be required for the Council in 2016/17.

2.18 Updated 2015/16 Balance on the Collection Fund Account

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 (2015/16) and distribute the surplus or recover the deficit from the constituent bodies.

The balance on the Collection Fund at the end of 2015/16 is estimated to be -£5,586,254, to be allocated as follows:

	Allocation %	Constituent Share (Part 1b Line 24) £
Central Government	50	-2,837,986
East Hertfordshire District Council	40	-2,270,389
Hertfordshire County Council	10	-567,597
Total	100	-5,675,972

2.19 The distribution will be undertaken in 2016/17 and amended by the completion of the NNDR3 for 2015/16.

2.20 For the Council, the updated MTFP (Medium Term Financial plan) assumes the Deficit to be distributed in 2016/17 will be funded through the Cost of Collection Reserve.

Summary

2.21 Based on the calculations at paragraphs 2.1 to 2.18, the amount to be distributed to each constituent body is as follows:

	Cost of Collection Allowance £	Share Allocation %	2016/17 Share £	Allocation of 2015/16 Surplus/Deficit £
Central Government	Nil	50	22,233,490	-2,837,986
East Hertfordshire District Council	193,935	40	17,786,792	-2,270,389
Hertfordshire County Council	Nil	10	4,446,698	-567,597
TOTAL	193,935	100	44,466,980	-5,675,972

3 NNDR1 Form for 2016/17

- 3.1 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 2016**.
- 3.2 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.

4 Implications/Consultations

- 4.1 Officers have endeavored to ensure that the assumptions included in completing the NNDR1 for 2016/17 are robust; reflecting both current performance and known material changes for the near future where relevant information is available.
- 4.2 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

4.3 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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