CABINET

30 January 2013

Report of the Portfolio Holder Corporate Services & Assets

Business Rates Income Forecast 2013/14

EXEMPT INFORMATION

None

PURPOSE

To report to and seek endorsement from members on the Business Rates income forecast for 2013/2014 under the new Business Rates Retention Scheme.

RECOMMENDATIONS

That members endorse the Business Rates income forecast for 2013/14 and subsequent NNDR1 form for submission to DCLG by 31st January 2013.

EXECUTIVE SUMMARY

The new Business Rates Retention Scheme was introduced under the Local Government Finance Act which received Royal Assent in November 2012. It will form a significant part of the Council's core funding total with effect from 1 April 2013, and is another fundamental change to the way in which Local Authorities receive one of their main funding streams. Therefore it will have a significant impact on the Council's budget and Medium Term Financial Strategy (MTFS) going forward.

The key issues with regard to this new system are twofold and of equal relevance, the scheme:
(a) has the potential to significantly alter the monetary value of this major source of income, and
(b) it also transforms the Council's role in the collection process in terms of managing the local business tax base.

The Business Rates Retention Scheme is subject to five sets of regulations, which are currently still in draft form, awaiting debate and approval by Parliament. The NNDR 1 form attached has been prepared on the basis of the draft regulations.

RESOURCE IMPLICATIONS

The estimates of Business Rates income collected and the submission of the NNDR 1 return is a key stage in the budget setting and resource planning process of the Council, and has been used in preparing the Medium Term Financial Strategy 2013-14.

4 key issues in completing the forecast are:

1. the level of appeals estimated to be repayable in 2013/14;
2. the level of empty / void properties;
3. recovery levels including an allowance for bad debts;
4. the level of future mandatory and discretionary relief.

LEGAL/RISK IMPLICATIONS

Business Rates are a highly complex and volatile tax and it is exceptionally difficult to forecast movements over a short to medium term with great accuracy. Aspects which affect forecasting Business Rates are covered below:

The tax base for Business Rates is volatile and prone to significant changes. Rates income fluctuates for many reasons; the most common of which are listed below:

- Changes in liability resulting from a change in occupancy;
- Appeals against rating decisions;
- Demolitions and the point at which properties are removed from the rating list;
- New Builds and the point at which rateable occupation triggered;
- Changes in building use and alterations to building size or layout;
- Changes in entitlement to reliefs;
- Action taken by property owners/occupiers to avoid full liability and maximise relief; particularly empty property and charitable relief;
- Changes in the provision for doubtful debts.

Fluctuations in Business Rates income are also strongly linked to the performance of the wider economy. For example, in an economic downturn there is a heightened risk of properties being left empty and lower levels of development activity.

The following high level risks have been assessed:

Risk	Mitigation	Risk Factor
Appeals estimated to be repayable in 2013/14;	Past data has been reviewed and a robust estimate included and will be monitored closely during the year	High
Empty / void properties	Revenues will be working with Economic Development staff to maximise occupancy and rates payable	Medium / High
Recovery levels including an allowance for bad debts	Additional resources have been approved – as well as close monitoring and additional recovery actions (court, bailiffs etc.)	Medium / High
Future mandatory and discretionary relief	A review of the current policy is planned for 2013/14 – reflecting the economic climate	Medium

The Government in setting baseline figures for Tamworth Borough Council has made allowances for the above in their estimates based on past collection levels adjusted for allowances for future changes – should collection levels locally fall below these assumed levels then there will be a detrimental impact on the Councils income and the associated medium term financial strategy.

SUSTAINABILITY IMPLICATIONS

- The localism agenda and its implications.
- The ability to support local businesses.
- Discretionary Rate Relief policy and the budgetary implications for the Council.

BACKGROUND INFORMATION

On 17 July 2012 the Department for Communities and Local Government (DCLG) published the paper "Business Rates Retention – Technical Consultation." The consultation period ended on 24 September 2012. This document proposed the introduction of a new scheme in relation to Business Rates (currently known as National Non Domestic Rates – NNDR)

Within the current system the Council is the Billing Authority and simply acts as a collection agency. Business Rate bills are issued and the income generated is paid, in its entirety, to Central Government and the national pool. It is then redistributed across the whole public sector as core funding. The vehicle for this allocation and redistribution is the Local Government Finance Settlement and Revenue Support Grant (RSG) using a complex formulae methodology. This clearly results in the income being received by Councils having no relationship to what is actually happening with regard to their local business and commercial tax base.

The proposed regime has been brought into legislation as part of the recent Local Government Finance Act and is applicable with effect from 1 April 2013. Subject to the approval of draft regulations.

BUSINESS RATES RETENTION – RATIONALE FOR CHANGE

As above, the current NNDR system involves the billing authority collecting all Business Rates. The total amount collected is handed over to Central Government and put into the national treasury pot for distribution across the whole public sector. It could be claimed that this provides no benefits or rewards for growing the area's business tax base which may in turn land the Council with additional costs in respect of providing additional services to new companies.

The DCLG have set out that the purpose of the new scheme is to give Councils more freedom and flexibilities with stronger incentives to increase new business in its area. It is intended that the scheme rewards Councils by allowing them to keep, and benefit from, increased rates collection by retaining the additional income resulting from tax base growth.

The above rationale presents the overall principles on which the change has been introduced. The practical application and the detailed system to be introduced is, however, more complex and has a number of adjustments along its course. These adjustments place restrictions and limits on the financial swings, both upwards and downwards, that such a fundamental change in policy can bring about for individual organisations.

BUSINESS RATES RETENTION – HOW THE NEW SCHEME WORKS

The new system is set out below to illustrate the stages of calculating the revised level of income the Council can expect in a two tier County.

1. As in the current system the Council bills businesses for the Business Rate income due within the local area.
2. 50% of the whole amount due is paid over to Central Government to be incorporated into the Revenue Support Grant (RSG) funding regime.
3. The remaining 50% retained by the Council is then split 80%/18%/2% with the 80% share being retained by the Council, 18% going to the County Council and the 2% being the Fire Authority's share.
4. From here on in, a mechanism of adjustments are applied to:
   (a) protect the Councils who are disproportionately financially worse off, and
   (b) reduce the income of Councils who are significantly better off as a result of this fundamental change in methodology.

5. The cash value of the Council's share is compared to an amount that Central Government has pre-determined is required by the Council.
6. If the Council's retained amount exceeds this predetermined level the excess has to be paid over to Central Government in the form of a **Tariff**.
7. Conversely if the amount is less, the Council will receive a **Top Up** payment.
8. From immediate effect the predetermined level of income contains an assumed level of growth in year one. If the Council grows its tax base in excess of this assumed level and receives a greater amount of income, a **levy** will be placed on the additional income gained. This, in effect, places a cash limit on the amount the Council is able to benefit from as a result of tax base growth.
9. If the Council, however, suffers a loss of income due to large scale business decline there is a level of loss that triggers a **safety net** payment. For the Council this limit is c. £153k – any losses above this limit would be subject to payment in accordance with the pooling governance arrangements.
10. The Council is a member of the Greater Birmingham and Solihull LEP pool and as such will avoid a levy payment to DCLG (as the pool is a net Top Up) and also no safety net payment will be payable.
11. Central Government will use the current Business Rates data submission forms returned by Councils to administrate the system. Namely, NNDR1 (forward looking and forecasting income to be collected and movements in tax base) and NNDR3 (year-end backward looking return of actual income due and collected, audited by the external auditor.)

The above stages have been simplistically listed in comparison to the detailed technical mechanics of the new process. This hopefully provides some perspective to the complexities and new variables of the regime and thereby gives a flavour of the degree of risk the Council's MTFS will be exposed to.

The role, and therefore profile of NNDR1, has now become increasingly more important as the Council needs to submit a forecasted level of growth or decline in Business Rate income. This will invariably impact directly on the amount of income retained to fund the Council's total budget. Robust arrangements have been put in place to monitor Business Rate income going forward.

NNDR1 RETURN

Although an NNDR 1 return has been made on an annual basis, approved by the Section 151 officer, under the new regulations, Cabinet is required to formally approve the expected Business Rates income for the forthcoming year. The deadline for approval is 31 January 2013.

The Business Rates income is the net rate income yield for 2013/2014. This is calculated as follows:

Gross Rates Yield:
Total Rateable Value x NNDR rate multiplier
Less:
Mandatory Reliefs
Discretionary Reliefs
Estimated losses on Collection
Allowance for cost of collection(as set by formula)
Add:
Enterprise Zones
New Development Deals
Renewable Energy Schemes
Plus or Minus Rate Retention Adjustments for
Change in rateable value due to growth or reduction in property numbers.
Adjustments due to appeals

Net Business Rate yield and base of the calculation of central and local shares

This information is all collated on the NNDR 1 form **(APPENDIX A).**
The net yield from Business Rates for 2013/14 per NNDR 1 return is **£30,476,522.**

After the submission of the NNDR 1, the calculation for the allocation of net Business Rate yield is completed. The allocation is in the proportion of:
50% to Central Government
40% to the Local Billing Authority Tamworth Borough Council
10% to the other Precepting bodies (9% to Staffordshire County council and 1% to Staffordshire Fire Authority).

The estimated net yield of **£12,199,806** retained by Tamworth Borough Council is held within the Collection Fund. This is reduced by the tariff payable of £10,156,300 – which results in a net estimated position in line with the Governments assessment of c. £2m

REPORT AUTHOR

Michael Buckland, Head of Revenues tel, 01827 709523
e-mail michael-buckland@tamworth.gov.uk

LIST OF BACKGROUND PAPERS

Local Government Finance Act 1988
Local Government Finance Act 2003
Local Government Finance Act 2012
The Non-Domestic(Rates Retention) Regulations 2013
Department for Communities and Local Government – National Non-Domestic Rates Return 1 (NNDR1 2013-14)

APPENDICES

Appendix A - National Non-Domestic Rates Return (NNDR1 2013-14)

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