CABINET

23 January 2014

REPORT OF THE PORTFOLIO HOLDER FOR OPERATIONS AND ASSETS

BUSINESS RATES INCOME FORECAST 2014/15
(REVISED FOLLOWING DCLG UPDATES 21st & 22nd JANUARY 2014)

EXEMPT INFORMATION

None

PURPOSE

To report to and seek endorsement from Members on the Business Rates income forecast for 2014/15.

RECOMMENDATIONS

That:

1. **Members approve the Business Rates income forecast for 2014/15 and subsequent NNDR1 (v.3) form for submission to DCLG by 31 January 2014, in line with legislative requirements;**

2. **Should amendments be required to the forecast NNDR1 (updated 21st and 22nd January 2014) following receipt of updated guidance, Cabinet authorise the Executive Director Corporate Services, in consultation with the Leader of the Council, to make such required amendments as necessary.**

EXECUTIVE SUMMARY

The Department for Communities and Local Government (DCLG) requires that the Business Rates income forecast is formally approved by the Authority prior to submission – in line with local Governance arrangements. Business Rates income forms a significant part of the Council's core funding total and, from 2013/14 under the Business Rates Retention Scheme, is a fundamental change to the way in which Local Authorities receive one of its main funding streams. The forecast income will have a significant impact on the Council's budget and Medium Term Financial Strategy (MTFS) going forward.

An updated National Non-Domestic Rates (NNDR1) (v.3) forecast has been prepared following receipt of more detailed guidance together with revised forms received from DCLG on 21st and 22nd January 2014. Calculations within the revised form have been significantly amended – the financial impact of the changes since the draft NNDR1 (v.1) was completed are detailed within **table 1** below, which identifies potential additional retained business rate income of c.£23k (c.£134k indicated in the original form and c. £19k in the revision of 21st January 2014).

The completion of the revised form has identified a number of issues and uncertainties with some of the cell calculations which will require further clarification, place doubt over the levels of business rate and any associated new burdens grant income and may result in a revised submission to DCLG.

The 2014/15 NNDR1 form identifies a number of new burdens impacting on Councils for which the DCLG have indicated that a Section 31 grant will be payable. However, in light of the ongoing uncertainties around the calculations contained within the form, especially in relation to Section 31 grant levels, clarification and consideration of the likely level of new burdens grant will be needed as part of the finalisation of the Medium Term Financial Strategy (MTFS) for Council approval in February 2014.

The two key issues with regards to the Business Rates Retention Scheme are:

(a) There is a significantly increased risk on the level of funding retained under the new system as individual elements (such as appeals and void levels) have the potential to adversely 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 as collection levels will directly impact on the Council's funding resources.

The estimates included in the NNDR1 (v.3) form for 2014/15 (as attached at **Appendix A**) have been prepared on the basis of draft instructions from DCLG informed by local conditions. Further instructions & guidance have been received from DCLG since the version 1 of NNDR1 was prepared. However, there remains some uncertainties and risks around the methodology used in preparing the forecast return – especially around the level of future appeal costs, void levels and, under the new burdens doctrine, Small Business Rate Relief and the 2% multiplier cap grant.

As any further clarification may not be received in time to update the forecast NNDR1 (v.3) prior to Cabinet approval, it is recommended that should amendments be required to the forecast NNDR1 (v.3) then these be delegated to the Executive Director Corporate Services in consultation with the Leader of the Council, with an update provided to the Cabinet.

RESOURCE IMPLICATIONS

The estimates of Business Rates income collected and the submission of the NNDR1 return is a key stage in the budget setting and resource planning process of the Council, and will be used in preparing the Medium Term Financial Strategy 2014/15.

Four key issues in completing the forecast are:

1. the level of appeals estimated to be repayable in 2014/15;
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.

The estimated net yield of £12,823,133 retained by the Council (after the Preceptors and Central Share) is held within the Collection Fund. This is reduced by the tariff payable of £10,354,168 and the 50% levy on business rates in excess of the Government assessed baseline.

LEGAL/RISK IMPLICATIONS BACKGROUND

Business Rates is a highly complex and volatile tax and it is exceptionally difficult to forecast movements over a short to medium term with great accuracy. Due to ongoing uncertainties and the anticipated late notification from DCLG clarifying the guidance and associated treatment of key factors within the return then this adds a significant amount of uncertainty and risk to the projections contained within the return.

Key issues which affect forecasting Business Rates are covered 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 is 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.

Risks associated with the new NNDR process, and action taken to mitigate those risks, are set out in the table below.

Risk	Mitigation	Risk Factor
Appeals estimated to be repayable in 2014/15 relating to pre 2013/14 & current year;	Past data has been reviewed and a robust estimate included and will be monitored closely during the year;	High
Uncertainties around the calculations contained within the form, especially in relation to Section 31 grant levels	Ongoing clarification expected from DCLG / sensitivity analysis to be contained within MTFS	Medium
Empty / void Properties;	Revenues continue to work with Economic Development staff to maximise occupancy and rates payable;	Medium / High
Recovery levels including an allowance for bad debts;	Close monitoring and additional recovery actions (court, bailiffs etc.);	Medium
Future mandatory and discretionary relief.	A review of the current policy is planned for 2014/15 – reflecting the economic climate.	Medium

The Government, in setting baseline figures for the 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 Council's income and the associated Medium Term Financial Strategy.

The Non-Domestic (Rates Retention) Regulations 2013and the Department for Communities and Local Government – National Non-Domestic Rates Return 1 (NNDR1 2014/15) requires Cabinet approval of the tax base by 31 January 2014.

SUSTAINABILITY IMPLICATIONS

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

BACKGROUND INFORMATION

The Business Rates 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. 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. The predetermined level of income contains an assumed level of growth. 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 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. £202k – 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 administer 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 is 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 previously 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 2014.

The Business Rates income is the net rate income yield for 2014/15. 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 (v.3) form **(APPENDIX A).**

The net yield from Business Rates for 2014/15 per NNDR 1 (v.3) return is £31,919,590 (originally £32,470,924).

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
10% to the other Precepting bodies (9% to Staffordshire County Council and 1% to Staffordshire Fire & Rescue Authority).

Table 1: Income from Business Rates Retention	Cabinet 30 Jan 2013 2013/14	Version 1 Cabinet 23 Jan 2014 2014/15	Version 2 Updated Guidance 21/1/14 2014/15	Version 3 Updated Guidance 22/1/14 2014/15
Collectable	£30,568,980	£32,450,178	£31,878,540	£31,898,547
Collectable (Excl. Transition)	£30,591,974	£32,461,314	£31,889,676	£31,909,683
Cost of Collection	(£92,458)	(£92,458)	(£92,162)	(£92,162)
Estimated yield	£30,499,516	£32,368,856	£31,797,514	£31,817,521
Estimated surplus b/fwd	-	£9,611	£9,611	£9,907
Authority Retained share	£12,199,806	£13,043,845	£12,815,012	£12,823,133
Less: Tariff	(£10,156,318)	(£10,354,168)	(£10,354,168)	(£10,354,168)
Total	**£2,043,488**	**£2,689,677**	**£2,460,844**	**£2,468,965**
Less: Authority Baseline	(£2,042,882)	(£2,082,678)	(£2,082,678)	(£2,082,678)
Total	**£606**	**£606,999**	**£378,166**	**£386,287**
50% Levy payable	£302	£303,498	£189,082	£193,143
Add: Baseline	£2,042,882	£2,082,678	£2,082,678	£2,082,678
Total	**£2,043,184**	**£2,386,176**	**£2,271,760**	**£2,275,821**
Draft MTFS assumption	£2,042,882	£2,252,382	£2,252,382	£2,252,382
Addition / (reduction) in funding level	**£302**	**£133,794**	**£19,378**	**£23,439**

The estimated net yield of £12,823,133 (originally £13,043,845) retained by the Council is held within the Collection Fund. This is reduced by the tariff payable of £10,354,168 and the 50% levy on business rates in excess of the Government assessed baseline for the Council.

REPORT AUTHOR

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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 2014/15 v.3)

APPENDICES

Appendix A (NNDR1 v.3) gives details of the estimated Business Rates Income forecast for 2014/15.

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