Report of the Director of Policy and Resources

Agenda Item No: 6
Meeting: 11 December 2014

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

SETTING THE NON-DOMESTIC RATES TAX YIELD FOR 2015-16

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To consider and approve the North Lincolnshire National Non Domestic Rates (NNDR) Tax Yield for 2015-16.

2. BACKGROUND INFORMATION

2.1 The total business rate for England is shared 50/50 between central and local shares. The local share is then allocated to individual councils in proportion to the amount of business rates they historically collected and increased, normally by inflation, each year. The government uses the central share to fund any grants it makes to local government.

2.2 The new funding regime therefore has three elements:

a) Formula grant funding from government
b) The local share of business rates
c) Council tax

2.3 Each year the Council is required to estimate the amount of NNDR it believes it will collect in the following financial year and make a return, the NNDR 1, to Government. This is the purpose of this report.

2.4 However there are restrictions on how much of the *local share* of business rates councils like North Lincolnshire can retain. That is because the government wants to protect areas which currently depend most heavily on central government funding. It used the 2012/13 local government settlement to derive a *start-up funding assessment* for each council. This means it will continue to redistribute business rates from authorities with large tax bases to those with smaller tax bases relative to their needs. It will do this by applying a *tariff* to some councils in order to provide a *top-up* to others. This comes out of the local share and the tariff for 2015/16 for North Lincolnshire will be £9.857m. This is fixed for five years, up-rated annually in line with the Retail Price Index (RPI).

2.5 The NNDR1 return therefore estimates the amount of NNDR the council will collect for the following year 2015/16. Half of this total must be paid over to Central Government, with a further one percent share being paid to the Fire Authority as a local precepting body. Humberside Police are funded outside the new system through grant. Any *tariff* is then paid from the remaining portion. If the sum remaining after all these payments are made is more than the share of NNDR funding the government has determined for the council it must pay a levy on the excess. For North Lincolnshire Council the amount of the levy is 25% of the excess.

2.6 What this means is that the council can retain a proportion of any growth in business rate income after adjusting for annual inflation. It is intended to tie councils more directly to the fortunes of the local economy and to give them a greater incentive to take a more active role in promoting economic prosperity.

2.7 There are, of course, risks that the council's funding will fall in circumstances of recession or economic decline. For this reason the government guarantee a minimum level of funding for each council if actual NNDR receipts are lower than their Baseline Funding level. Councils are guaranteed to receive 92.5% of the baseline funding level, so for North Lincolnshire Council the maximum loss for 2015/16 is £7.4m equivalent to a 13.1% increase in council tax. If receipts fall by more than this amount, the council will receive a payment from government under its Safety Net scheme.

2.8 Under the scheme North Lincolnshire Council has an opportunity to offset future reductions in central funding by growth in its business base, but it is also unusually reliant on a small number of businesses paying large amounts of NNDR. These businesses include Tata Steel and a number of refineries and power stations which together comprise a substantial part of the local tax base. This council is the only Humber authority which is a tariff authority; all others will receive a top-up grant. For the same reason there is a greater volatility in the local tax base due to appeals against rating valuations. The government has allowed for successful appeals by reducing its estimate of the national NNDR tax income.

2.9 Last year changes were introduced in the Chancellor's autumn statement which affected the localisation of Business Rates scheme and therefore the NNDR 1. The details of these changes were not released until January 2014.

2.10 As a final point the Government will continue to set the parameters of the scheme including the business rate to be levied so there is no change for businesses that pay this tax.

3. OPTIONS FOR CONSIDERATION

3.1 The NNDR tax base is the basis for calculating the net NNDR yield in 2015-16. The Government specifies the sources to be used for most of the data used in this calculation. This includes the tax yield measured at the end of September in the prior year modified by reliefs and losses. The council has discretion in two important areas. It is required to estimate the amount of growth or decline in the taxbase, and the impact of any appeals it expects in 2015-16.

3.2 An assessment has therefore been made of the potential growth or reduction in the tax base in 2015/16. The main sites where growth in the tax yield is forecast are the Marks and Spencers development, the Eco2 Power Station near Brigg, a Biomass Power Station, a Solar Energy Park near Broughton and general growth in the tax base. It will also be the first full year of operation of the Keadby Wind Farm.

3.3 Set against this is the potential for the loss of all the rateable value of the area's five gas powered fire stations. A gas fired power station in Peterborough appealed against its RV of £3.1m due to lack of profitability, as a result the RV was set to £1. The Valuation Office is currently appealing against this judgement and a decision from the upper tribunal is due shortly. Regardless of the outcome of this case an appeal to the Court of Appeal is likely which could take a considerable period of time. A decision upholding the present position would result in significant backdated appeal costs invoking the safety net and the loss of ongoing NNDR revenue for the council of around £4m per year.

3.4 The Valuation Office Agency (VOA), the government agency responsible for valuing domestic and non-domestic properties, are able to provide some assistance on the number of appeals outstanding. There are currently 197 appeals outstanding with rateable values up to £31.1m. An estimate of the impact on the tax base for 2015-16 has been calculated and included in the NNDR 1 return. Around 37% of the tax base is under appeal and these appeals if successful will result in refunds covering up to five years or in a limited number of cases, nine years.

The latest information from the VOA shows that in this area 40% of appeals are successful and the average reduction in the rateable value of an asset where there is a successful appeal is 7%. This information has been used to estimate the impact of currently outstanding appeals. In addition part provision has been made in relation to the potential refunds due on the Power Stations.

3.5 The government has established a number of schemes to allow firms to defer increases in tax which arise after the five yearly valuations, the latest in 2010, or due to inflation. It will continue to compensate the council for the effects of providing transitional relief.

3.6 Taking these factors into account the NNDR tax yield for 2015-16 is currently estimated to be £91.757m, this does not take account of any on-going effects of a successful appeal relating to power stations. This situation will be kept under review up to the submission of the NNDR 1 form to Government for 2015-16 and in the closure of the 2014-15 collection fund. Details of the calculation are at Appendix A.

4. ANALYSIS OF OPTIONS

4.1 £91.757m is the best current estimate of the 2015/16 yield and so there are no other options to consider. The final NNDR 1 form will not be issued until mid January 2015 and may include changes to previous versions. The outcome of the appeal on Power Station rateable values may also be announced in January which could have a major impact on the NNDR 1. These issues means the current estimate and all the resultant figures in para 5.1 are only provisional and will be subject to change once the final form is received. Due to the uncertainty surrounding the final figures and the potential urgency of making the final decision it is suggested that the final approval is delegated to the Director of Policy and Resources in consultation with the Policy and Resources Cabinet Member.

4.2 The council will notify the Government of the actual in the NNDR 3 return after the period has closed; but for budgeting purposes this is the tax yield to be used for 2015/16. As with Council Tax any surplus or deficit on the Business Rates element of the collection fund is applied to the budget in the following year.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 It is estimated that by setting the NNDR tax base at £91.757m the council will retain funding of £35.838m. This is after deduction of the central share, the Fire Authority share, a tariff payment of £9.857m and a levy payment of £1.408m. That gives the council £5.2m more than the council's inflation adjusted NNDR Baseline Funding Level, and this additional sum will be taken into account in the council's forward financial planning. This is consistent with the amount previously assumed in the budget.

5.2 Although the scheme does bring some opportunities it also increases the risks to the council's finances. Experience shows that the tax yield can be volatile. The council will therefore have to maintain a higher level of balances than it would otherwise require due to this additional risk.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1 Regulations under the Local Government Finance Act 2012 specify that the council must approve its NNDR tax yield and notify Central Government by returning the NNDR 1 form by 31January.

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1 N/A

8. RECOMMENDATIONS

8.1 That Council set an estimated NNDR tax yield for 2015-16, before transitional arrangements, of £91.757m

8.2 That the Secretary of State and Humberside Fire Authority be duly notified.

8.3 That the Director of Policy and Resources in consultation with the Policy and Resources Cabinet Member be delegated the authority to make amendments to the NNDR tax yield if one or more material changes of circumstance occur before the final return is due for 2015/16, and to set the NNDR yield in 2016/17 and subsequent years.

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Background Papers used in the preparation of this report
Local Government Finance Act 2012

APPENDIX A

Calculation of the NNDR Tax Yield

	£
Gross rates	102,736,431
Reliefs	-6,270,178
Net Rates Payable	96,466,253
Provision for bad debts	-606,500
Provision for appeals	-3,000,000
Renewable energy Rates*	-850,000
Cost of collection allowance*	-252,218
Net NNDR Yield	**91,757,535**

*Fully retained by North Lincolnshire Council