MAIDSTONE BOROUGH COUNCIL

GENERAL PURPOSES COMMITTEE

30 JANUARY 2013

REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES

Report prepared by Paul Riley,
Head of Finance & Customer Services

1. CALCULATION OF BUSINESS RATE YIELD 2013/14 – NNDR1

1.1 Issue for Decision

1.1.1 This report advises Members of the expected yield from business rates in 2013/14. Setting out the information currently held in the business rates system and the calculation of assumed changes that will occur between this date and the 31st March 2014.

1.1.2 The information is reported to the Department for Communities and Local Government (DCLG) through a standard return made each year prior to the start of the year, commonly known as the NNDR1 return. In the past this return was certified by the Director of Regeneration and Communities or the Head of Finance and Customer Services. From 2013/14 onwards the government requires that the information supplied in the NNDR1 return be approved by Members before 31st January 2013.

1.2 Recommendation of Head of Finance & Customer Services

1.2.1 That the Committee:

a) Notes the calculations made for cells 21, 33 and 35 of the return to reflect the expected position for 31st March 2014 and the resulting yield.

b) Approves the NNDR1 return as set out in APPENDIX A to this report for submission to the Department for Communities and Local Government.

1.3 Reasons for Recommendation

1.3.1 Within the current national non-domestic rating system, where the money collected by the Council is paid in its entirety to the national pool, the Government requires the Council to complete a return advising them of officers' best estimate of rates to be collected in the forthcoming year. This return is known as the NNDR1. Under the new system of retained business rates the Government has continued the use of the form to calculate business rates yield but now requires the result to be approved in a similar manner to the Tax Base for Council Tax purposes, which was approved by this committee at its meeting on 19th December 2012.

1.3.2 The new system of retained business rates has been introduced as a part of the reform of local government finance completed by central government. From 1st April 2013 the Council will retain locally a part of the non-domestic rates (or business rates) it collects and not pay this into the national pool.

1.3.3 The part retained locally will be subject to fluctuations in value due to collection rates, cash flow, elements of the system where local discretion exists or elements of the system where the Council has no control. As the retained business rates will form 14% of the net revenue funding available to the Council in 2013/14, the NNDR1 form will become an essential part of the Council's budget setting process similar to the calculation of the tax base.

1.4 The Business Rates Yield

1.4.1 The completion of the NNDR1 for 2013/14 is based on the valuation list dated 30th September 2012 and the majority of the data in the return is either extracted from the Council's Business Rates system or pre-populated by the DCLG. A copy of the return, complete with values is given at **APPENDIX A** for consideration and approval by this Committee.

1.4.2 In the return there are some values for which the Council must provide its best estimate and these are considered in turn below.

Provision for non-collection (Cell 21)

1.4.3 In the past the provision has been set based upon prior experience of the Council's ability to collect business rates. In the current economic climate there is a higher than previously expected level of default by businesses that either cease trading or are unable to pay for other reasons. While the Council makes every effort to ensure payment, the assumption of a 1.01% non-collection rate is considered by officers to be consistent with past experience. The value of non-collection entered on the return at APPENDIX A is £587,378.55.

Provision for appeals (Cell 35)

1.4.4 This is a new factor in the NNDR1 due to the changes brought about by the new system and will potentially be a significant risk to the Council's resources. The value of outstanding appeals, as per the valuation office, is currently £32m. A prudent estimate of success at appeal is an average reduction in value of 10%. This reduction will be refunded back to the date of appeal and the average time the appeals are outstanding is 4.2 years. The table below steps through the calculation from the gross value of appeals to the liability to report in the return.

Step in Process	Value
VO Appeals Outstanding	£32,434,800
Provision for successful reduction (Estimate 10%)	£3,243,480
Rate income at 46.2p\£	£1,498,490
Refund due (Average age of appeal 4.2 years)	£6,296,740
Annual declaration of appeals liability @ 1/5th	£1,259,350

1.4.5 In the current system of national non-domestic rates, the result of appeals formed part of the annual adjustment to the NNDR1 through an audited, year-end return known as the NNDR3. Under the proposed retained business rates system the Council will bear 40% of the cost of appeals against its retained share and when significant reductions in rateable value are achieved through the appeals process the loss could have a significant effect upon the Council.

1.4.6 The government are of the opinion that the backdated appeals should be declared through the NNDR1 in five instalments over the next five years. The Council never retained the resources required to make the refunds and for all successful valuations will lose 40% of refunded value. It is essential therefore, that the Council provisions this loss in its accounts at 40% of the "refund due" figure in the table above. This would be a sum of £2,518,696.

1.4.7 The value entered for cost of appeals on the return at APPENDIX A meets DCLG and Valuation Office current advice at £1,259,350.

Change in rateable value during 2013/14 (Cell 33)

1.4.8 This is also a new element to the NNDR1 return. The government is requesting that the Council estimate the level of growth or reduction in rateable value during 2013/14. The Council's past experience is that growth is not significant and on occasions the reduction from revaluations is greater than the level of growth. Over the last three years the average growth in rateable value in Maidstone is £300,000. This is a net value after valuation reductions from successful appeals. That value has been estimated above at 1/5th of £3,243,480 or approximately £650,000. This indicates that the level of underlying growth in rateable value averages £900,000 per annum. The estimated growth entered on the return at APPENDIX A is the net value of £300,000.

Other Factors

1.4.9 A number of other factors could be considered variables as the Council has some influence over them. An example would be the Council's policy on discretionary reliefs. It would not be possible to vary these factors at this time because the system provided value is created based on the current policy. The Council's policy would need to be reviewed and amendments approved prior to considering any change to the value on the return at APPENDIX A.

1.5 <u>The implications for the Council</u>

1.5.1 The NNDR1 attached at APPENDIX A shows a net total collectable business rates of £56,321,630 The value is reported to DCLG, Kent County Council and Kent Fire to enable them to identify the resources they can expect to receive from the collected income. Payment will be made by the Council in 12 monthly instalments.

1.5.2 The total collectable business rates is initially distributed as follows:

Authority	**Share**	**£**
DCLG	50%	28,160,815
Maidstone Borough Council	40%	22,528,652
Kent County Council	9%	5,068,947
Kent Fire	1%	563,216
		56,321,630

1.5.3 However this Council is assessed to be a tariff authority, which means it receives more in business rates than the needs formula suggests it requires. The Government has set the tariff for this Council at £18,760,180 and the baseline funding (needs) level at £2,847,906 making a total of £21,608,086. The tariff must be paid to the DCLG for onward distribution to authorities where need is greater than their share of their business rates, known as top-up authorities. The baseline funding is the expected level of business rates to be retained by the Council.

1.5.4 In addition, should a tariff authority benefit from growth there is a limit to the benefit that can be retained. In similar proportions to those in the table at 1.5.2, the government will receive the first 50% and a second share will go to the government as a levy to support those authorities that suffer from a contraction in rateable value of above 7.5% known as the safety net. This levy at its greatest is a further 25%. So Maidstone would pay 75% of all growth to the Government. The remaining 25% would be shared with Kent County Council receiving 4.5% and Kent Fire Receiving 0.5% and Maidstone retaining 20%.

1.5.5 If the Council achieves this level of income from business rates in 2013/14 then it would retain £3,308,189 which is £460,283 greater than the baseline. The absolute minimum that the Council would receive is £2,634,310 (£213,596 less than the baseline) which is the level at which the system's safety net provides resources to support the Council from the levy on growth.

1.5.6 Under present accounting guidance this growth would be required to form part of the provision against future successful appeals that have an element that backdates 1st April 2013 see paragraph 1.4.6. The medium term financial strategy for 2013/14 onwards is based upon the baseline funding announced by central government and does not propose the use of this growth while the issue of funding for backdated appeals continues to be a risk for the Council.

1.6 <u>Alternative Action and why not Recommended</u>

1.6.1 The production of the NNDR1 is a statutory requirement. Its formal approval by Members is a requirement of the Secretary of State based on the provisions in the Local Government Finance Act 2012. Failure to approve and provide the relevant information by the end of January 2013 will mean that the government will produce its own estimate of the Council's business rates yield for 2013/14.

1.6.2 The Committee could defer the decision or refer it to Council. Due to the fact that this is the first year of a new system the information required has been difficult to obtain and guidance from the DCLG has been provided late. The Committee is considering the information on the last date that the Council has an opportunity to approve the NNDR1 and it must be agreed, or amended and agreed, at this time.

1.7 Impact on Corporate Objectives

1.7.1 Retained Business Rates will become an integral part of the Council's tax collection processes, which are a basic financial function of the Council. It is essential for the efficient funding of all Local Authorities in the area. The income received from Business Rates, within the overall context of the budget process, provides resources for the provision of all this Council's services.

1.8 Risk Management

1.8.1 The most immediate and significant risk relates to the treatment of backdated appeals. The Council will be required to set aside a provision against the results of outstanding appeals. This has been estimated as £2,518,696. The income received to refund these appeals was paid to central government in previous years and the provision will have to be made from any growth in business rates on current revenue resources.

1.8.2 Another significant risk relates to an optimistic assessment of the Business Rates yield, as this would lead to cash flow problems during the year. As a direct consequence this would reduce investment income.

1.8.3 Although not a significant risk, a pessimistic assessment would increase balances on the Collection Fund. When fed into the overall budget process this can produce yearly variations which need to be managed and would fail to provide available resources to other local authorities and central government in a timely manner.

1.8.4 The mitigation of these risks is to monitor collection rates, appeals and rateable values throughout the year. Possible consequences and actions will be reported to Cabinet in the Quarterly Budget Monitoring Report and if necessary urgent action would be reported to the Cabinet Member for Corporate Services.

1.8.5 The assumption in the medium term financial strategy that funding from retained business rates is equal to the baseline funding is also an effective mitigation against the risks around the final level of appeals.

1.9 Other Implications

1.	Financial	X
2.	Staffing	-
3.	Legal	X
4.	Equality Impact Needs Assessment	-
5.	Environmental/Sustainable Development	-
6.	Community Safety	-
7.	Human Rights Act	-
8.	Procurement	-
9.	Asset Management	-

1.9.1 The financial implications are set out in the report.

1.9.2 The legal implications relate to the new obligation that the NNDR1 return is formally approved by Members. Approval by this committee today will ensure the legal obligations of the Council are fulfilled.

1.10 Relevant Documents

1.10.1 Appendices

Appendix A – NNDR1: National Non-Domestic Rates preliminary return 2013/14

IS THIS A KEY DECISION REPORT?

Yes ☐ No ☒

If yes, when did it first appear in the Forward Plan?

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This is a Key Decision because: ………………………………………………………………..

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Wards/Parishes affected: ……………………………………………………………………..

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