PLYMOUTH CITY COUNCIL

Subject: Business Rates Retention Scheme / NNDR1 return

Committee: Full Council

Date: 28 January 2013

Cabinet Member: Councillor Lowry

CMT Member: Adam Broome (Director for Corporate Services)

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Ref:

Key Decision: No

Part: I

Purpose of the report:
This report presents the 2013/14 NNDR1 form for approval and provides information on the new Business Rates Retention Scheme. It explains the way in which the Council's core funding will change from April 2013 and describes some of the actions the council is considering to manage the risk and volatility within the new scheme; a shift in risk being passed from Central to Local Government.

Corporate Plan 2012 – 2015:
This initiative links to our growth agenda

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

The basis of distribution of Central Government funding to local authorities is changing radically from April 2013. A substantial amount of the council's core funding will now be dependent on the Business Rates generated in the Plymouth area. Whilst this change will incentivise the Council to generate Business Rates growth it does also bring with it a higher degree of risk in what was previously core government funding.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety, Risk Management and Equality, Diversity and Community Cohesion:
Not applicable

Equality and Diversity

Has an Equality Impact Assessment been undertaken? ~~Yes~~ /No

Recommendations & Reasons for recommended action:

It is recommended that the City Council -

1. Approve the NNDR1 return.
2. Note the risk and volatility issues together with the opportunities around the rates retention highlighted in this report.
3. Note the inclusion of Plymouth City Council in the Devon Rates Pool for 2013/14.

Alternative options considered and rejected:
n/a

Published work / information:

Business Rates Pooling Report - 12th November 2012

Background papers:

None

Sign off:

Fin	mc1213.030	Leg	TH0077	HR	N/A	Corp Prop	N/A	IT	N/A	Strat Proc	N/A
Originating SMT Member - Malcolm Coe											
Have you consulted the Cabinet Member(s) named on the report? Yes / ~~No~~											

1.0 Introduction

1.1 This report presents the NNDR1 return for formal approval; Council approval of this return is a new requirement of the Business Rates Retention Scheme.

1.2 It also provides information on the new Business Rates Retention scheme which is due to be implemented in April 2013 and explains that the way in which Plymouth City Council receives its core funding will change.

1.3 The report also sets out Plymouth City Council's position within the Devon "Pool".

2.0 Current System of Funding

2.1 Business Rates or the commonly used name of Non-Domestic Rates (NNDR), is a property tax on the occupation of non-domestic property which was introduced by the Local Government Finance Act 1988.

2.2 Business Rates collected by local authorities are the way that those who occupy non-domestic property contribute towards the cost of local services. Business Rates, together with revenue from council tax payers, revenue support grant provided by the Government and certain other sums such as fees and charges, is used to pay for the services provided by the local authority. Though the responsibility for billing and collection lies with local authorities, currently, the ultimate financial risk of Business Rates income is borne by Central Government.

2.3 Business Rates are organised on a national basis. The Government specifies an annual multiplier and local businesses pay rates calculated by multiplying the rateable value of their property by the multiplier. The rateable value is based on the annual rental value of the property and calculated by the Valuation Office. The Council collects rates due from the ratepayers in its area as an agent for the Government, paying the proceeds into an NNDR pool administered by the Government. The Government redistributes the sums paid into the pool back to a local authority's General Fund as part of the settlement based on a formula distribution.

2.4 Under the current system Plymouth's contribution to the pool is less than the income it receives following redistribution, hence Plymouth is currently a net gainer from the pool.

2.5 The authority also receives other core funding from the Government in the form of Revenue Support Grant and specific grants based on the Government's assessment of spending need. Council tax income funds the Council's remaining budget requirement.

3.0 Localisation of Business Rates

3.1 Background

3.1.1 Business Rates retention is one of the features of the Local Government Finance Act 2012, to be implemented in April 2013. There are many aspects of the scheme, but fundamentally, it is the retention of a proportion of the Business Rates revenue generated in a local area by the relevant local authority. It is intended to provide incentives for local authorities to drive economic growth, as authorities will be able to retain a share of any growth that is generated in Business Rates revenue in their areas, as opposed to the current system where all Business Rates go to central Government for distribution.

3.1.2 The proposals do not include any changes to the current charging system for Business Rates i.e. liability, billing and collection, so businesses will not see any change to the way that their Business Rates are set or how they pay.

3.2 How the Business Rates retention system will work

3.2.1 Essentially, local authorities will retain 50% of the Business Rates generated in their area and receive Revenue Support Grant to fund their remaining spending needs.

3.2.2 The reality is that some authorities earn more in Business Rates than they currently receive from the formula grant, so 49% of their Business Rates income will be greater than 49% of their funding needs, and there are other authorities who earn much less, the Government intends to address this disparity through a mixture of "top-ups" and "tariffs". If spending need is deemed to be greater than Business Rates income, then the Government will provide "Top-Up" funding, Plymouth City Council is a Top Up authority.

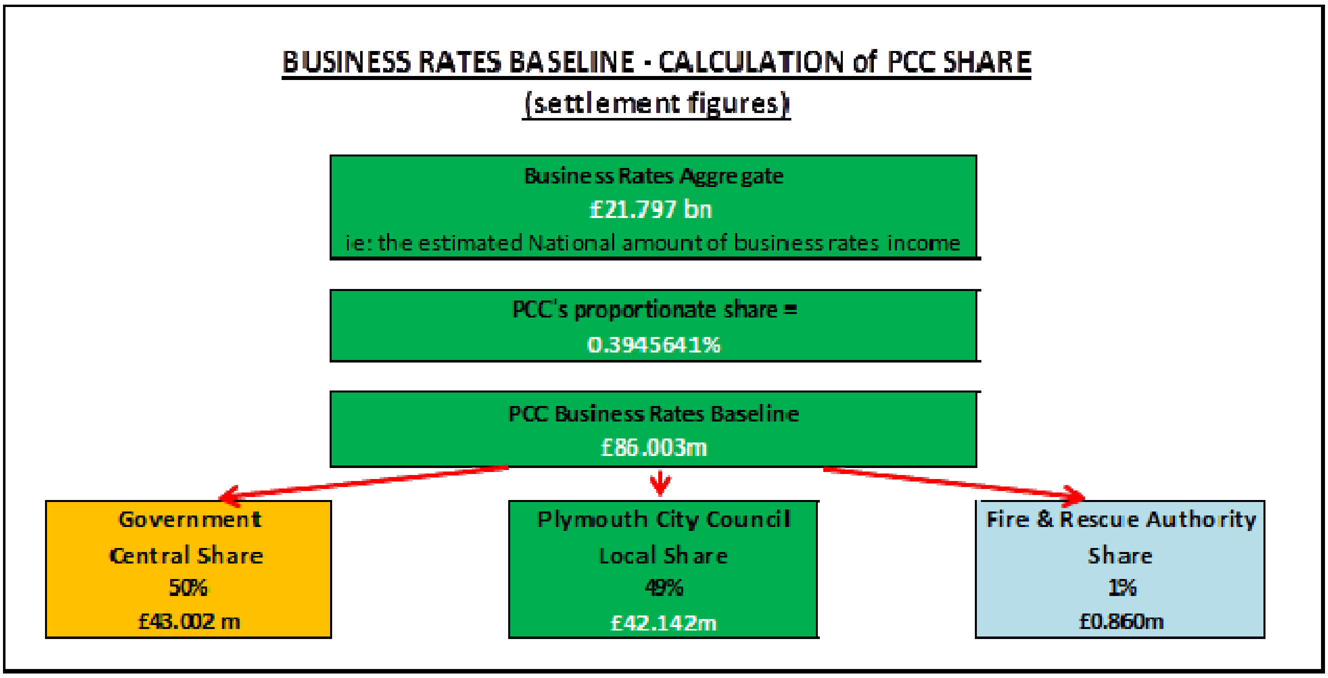
3.2.3 The Business Rates Retention Scheme includes the Fire & Rescue Service funding but <u>excludes</u> Police. Therefore 1% of the local share of Business Rates will be transferred to Devon and Cornwall Fire Authority

4.0 The Notional Calculation

4.1 How the funding will work

4.1.1 Under the Business Rates Retention Scheme, the government estimates how much it believes each local authority should be able to collect from the Business Rates in its area, of this amount, Central Government will take 50%, Plymouth City Council 49% and the Fire and Rescue Authority will take 1%. This is shown in Table 1 below.

Table 1: Calculation of PCC Business Rates Baseline 2013/14



4.1.2 This is the Government's notional calculation of business rates income and will be used to set the amount of business rates "top up" funding that Plymouth will receive. Note the remaining 50% element of the Council's funding will come through Revenue Support Grant.

4.1.3 The Government has set a spending need level (referred to as Baseline Funding) under the Business Rates Retention scheme of £50.961m, but as Plymouth's spending need is higher than its locally retained Business Rates (£42.142m in table above), then Plymouth has been given a top up funding level of £8.819m. This figure is a set figure however the locally retained Business Rates income figure will change in line with our estimates in our NNDR1 return.

5.0 NNDR Returns

5.1 There are four NNDR returns to Central Government in each financial year
- NNDR1 – Initial estimate
- NNDR 2 – Midyear estimate
- NNDR 3 – Provisional year end return
- NNDR 3 (Audit)- Final audited return

5.2 The NDR returns include information such as:
- Number of hereditaments
- Rateable Value (RV)
- Mandatory Reliefs
- Discretionary Reliefs
- Impact of appeals
- Losses on collection

5.3 The NNDR1 return submitted in early January contains the estimate of Business Rates income for the coming financial year, with the figures based on the best information at that date. However it is these estimates which will drive a key element of the Council's funding for 2013/14. Through the course of the year changes will occur and these estimates will be replaced with actual events such as the impact of rateable value appeals, mandatory and discretionary reliefs, changes in collection rates as well as the impact of any new business premises built.

5.4 For the first time, the NNDR1 return will be used to set a substantial element of income within the Council's budget, this is because the locally retained element of Business Rates; Plymouth's 49% will be derived from this return. It will therefore replace the Government's estimated figure of £42.142m (Table 1)

5.5 The NNDR1 return, which will follow, will show the estimated amount of Business Rates Plymouth City Council expects to receive for 2013/14 which could be more or less than the Government's estimate.

5.6 As explained in paragraph 5.3, this amount will change as the year progresses, which will inevitably lead to an element of volatility in Business Rates income which will need to be managed. The NNDR1 return has previously been signed off by the S151 Officer, however because of its implications on budget setting under the new scheme, it is now required to be signed off by Council by 31st January. In order for the Government to monitor changes to our NNDR estimates the NNDR2 return, will become a mandatory return, currently it is discretionary and only needs to be completed in the case of significant change.

5.7 The NNDR3 is the year end return, and shows the actual position as at the end of the year. This return is subject to audit.

5.8 As explained, the new scheme sees a significant transfer of risk from Central to Local Government and it is essential that the Council understands and manages the risk and volatility in its Business Rates.

5.9 It was initially expected that any under or over recovery of NNDR income in any financial year (against income forecasted in the NNDR1) would need to be accounted for in that year, thus exposing authorities to potential high levels of volatility in their income. However, sight of the draft Business Rate Retention Regulations proposes that the new system will work in a similar way to the current arrangements for Council Tax, whereby any surplus or deficit for a given financial year will be taken into account in the following year's budgeting process. There does appear therefore that there will be a time period for local authorities to build up plans to deal with these fluctuations, although it is still the case that a large share of the risk in relation to the collection of NNDR now sits with the authority which would have previously been borne by the Government.

5.10 What should be emphasised is that under the previous scheme any variations between estimated and actual year-end figures were an impact on Central Government's income rather than Local Governments' income.

6.0 How can we make the most of the Business Rates Retention Scheme?

6.1 This scheme is clearly a fundamental shift of risk from Central Government to Local Government; however the Government has stated that it believes it will provide a strong incentive for local authorities to promote growth, hence the risk AND reward argument of the scheme. The drive for Plymouth is to ensure that we are best placed to reduce the risk to the City of the new scheme and to maximise the potential reward.

6.2 There are a number of actions that the Council can take to mitigate the risk and also aim to maximise the potential that can be gained from the new funding scheme. Current proposals are explained below

Business Rates Growth Strategy

6.3 A cross departmental working group whose objective is to maximise Business Rates income in Plymouth could be set up. This group would comprise representatives from at least the following departments

- Planning / Building Control
- Economic Development
- Finance
- Revenues

6.4 This group would work together to fully understand the impact on Business Rates growth and income across the council. This would include understanding each department's policies and processes and how it impacts on Business Rates income. The actions would be for the working group itself to determine but could include the following.

- For the Planning Department, this could include assessing planning policy in light of the new scheme and ensuring that building control notices are issued promptly in order to enable Business Rates to be levied on newly completed properties as quickly as possible.

- Economic Development will be key from a business intelligence angle and information sharing by ensuring that the Council is aware of future business opportunities and how businesses are faring.

- The Revenues department are currently responsible for completion of NNDR returns and will need to improve awareness of the business community in order to build this intelligence into the NNDR estimates. Revenues staff will also need to have a close working relationship with the Valuation Office in order that information on appeals flows through as quickly as possible. There will be a much increased role in modelling of Business Rates and "what if" scenarios as well as being aware of the impact of discretionary reliefs on Business Rates income and the budgetary impact of these decisions.

- There will be an increased role for Finance in helping to model the financial impact of Business Rates as well as to monitor and report on income as part of monthly and quarterly monitoring. There will also be an increased role required in managing and reporting on the Collection Fund than under the previous scheme. It is also suggested that as part of future relevant Cabinet reports a section within Financial Implications is included to explain the impact on Rateable Values and core funding.

7.0 What can be done before the scheme starts?

7.1 Initial modelling of Business Rates should be carried out with an emphasis on understanding any in year fluctuations and whether they can be addressed. It is widely understood that the biggest risk in the system is the impact and the unpredictability of appeals. It is therefore essential that Plymouth enhances its relationship with the Valuation Office in order to receive information on submitted appeals as soon as possible. Liaison is already in place with the Valuation Office to look at how this can be achieved more effectively.

7.2 The council will be partly funded in future by its own Business Rate payers, therefore an awareness of who are main rate payers are, what industry sector they are in, and also understand the issues, risks and pressures that these sectors are facing. It will important to assess the risk of any of these key rate payers making a successful appeal and understand the financial implications of appeals. As Plymouth City Council will be able to retain growth in Business Rates above the Business Rates baseline it will be important to drive growth and understand and attract any growth sectors.

7.3 There is also an opportunity before the new scheme starts in April 2013, to ensure that as much has been done as possible in terms of driving existing appeals through the system and looking at the impact of bad debt and write-offs within the current system.

8.0 Managing the Volatility

8.1 As explained within this report, the new scheme sees a significant transfer of risk from Central to Local Government; it is essential that the Council understands and manages the risk and volatility.

8.2 This can be managed through close monitoring and reporting of Business Rates income but it would also be beneficial to consider setting up a Business Rates Reserve to manage year on year volatility. This option requires further appraisal but it could work by setting aside a sum that would be available to smooth the impact of fluctuations in Business Rates. The detail of this proposal can be established and other options explored in the next few months as the result of the Business Rates modelling work and potential fluctuations becomes clearer.

8.3 Following a substantial amount of pressure from local authorities the Government has this week announced that it will writing new regulations that allow the cost of appeals and the impact it has on Business Rates income to be spread over 5 years instead of having to be funded in the year that the appeal is upheld. This will reduce the volatility for local authorities and will be built into the final NNDR1 return in time of the 31st January deadline.

9.0 Devon NNDR Pool

9.1 The Local Government Finance Act allows local authorities to form pools for the purposes of business rates retention. Pooling will offer many local authorities an opportunity to retain more of the Business Rates generated in their areas by collectively paying a reduced levy and to use that revenue more effectively to drive economic growth. A pool will run for one year at a time.

9.2 All authorities in Devon jointly engaged the consultancy firm; LG Futures to examine the implications of pooling for the Devon Region. Following this report, Plymouth along with all other local authorities in Devon have formed a Devon Pool.

9.3 The members of the Devon pool consist of the following authorities, with Plymouth unanimously agreed as lead Authority:

- East Devon
- Exeter
- Mid Devon
- North Devon
- South Hams
- Teignbridge
- Torridge
- West Devon
- Plymouth
- Torbay
- Devon

9.4 The benefits are difficult to quantify at this stage with any certainty, given the assumptions and volatility around the new business rates retention scheme itself. We are confident there will be a benefit for Plymouth City Council, but in line with the majority of the other members of the pool, we have not assumed any additional income in our budget setting.

9.5 Monitoring arrangements across the pool have been agreed by all of the authorities.

9.6 As Lead Authority, we will monitor the countywide implications during this first year, and decide in principle to carry on or not for 14/15 in September 2013. In this role we will receive compensation from the pool for all administration costs.

10.0 Conclusions

10.1 The Business Rate Retention Scheme which is to be introduced from April 2013 will fundamentally change the way local authorities are funded. In principle it will provide local authorities with an incentive to generate growth in the local area and reward this by allowing authorities to retain part of the additional income generated. On the other hand it will place significant risk on authorities increasing the volatility of funding.

10.2 There is a need to actively manage business rates income in the City and manage the potential threats and opportunities presented by this change by aligning our strategies and resources in order to achieve the best possible outcome for the City.

10.3 The Devon Pool offers further opportunity to gain the maximum benefit from the new arrangements.