



East
Northamptonshire
Council

Finance Sub Committee – 9 February 2015

Business Rates Position Update

Purpose of report

This report provides members with an update of the current business rates position and its impact on our Medium Term Financial Strategy.

Attachment(s)

None

1.0 Background

- 1.1 In April 2013 the Government introduced a new funding system for local Government. As part of this change a Business Rates Retention Scheme was established.
- 1.2 The key aim of this new Scheme is to incentivise local business growth through the retention of Business Rates. As part of the Scheme, councils will retain a proportion of any growth in business rates. In basic terms, Councils retain at least 50% of business rates growth locally.
- 1.3 The Council is working with all other councils across Northamptonshire and has entered into a pooling arrangement to seek to retain more of the business rates raised locally. This is split 80:20 between districts and the county council respectively.
- 1.4 The Business Rates Retention system is not all about sharing the benefits of growth. There is also sharing of the risk and volatility of changes to the business rates position. This can occur due to a number of factors including natural turnover of businesses, demolition of property and companies appealing their rateable values. These risks are shared in the same proportions to any growth.
- 1.5 The operation of the Business Rates Retention Scheme, similarly to the rest of the Local Government Finance system, is complicated in its operation.
- 1.6 To summarise the previous arrangements for funding councils:
 - The Local Government finance system is one of the most centralised in the world
 - Over 50% of funding is received direct from Central Government
 - All business rates income was collected by billing authorities but paid direct to Government.
 - This was redistributed to local government via a very complex formula
- 1.7 To summarise the current arrangements for funding councils:
 - Shift in financial responsibility for business rates
 - Councils given the ability to keep at least 50% of growth in future business rates
 - A proportion of the income collected is retained (*only part is paid out to other government bodies*)
 - 50% Government
 - 10% County Council
 - 40% Retained
 - A mix of “top-ups” and “tariffs” equalises funding across local government

2.0 Businesses in the District

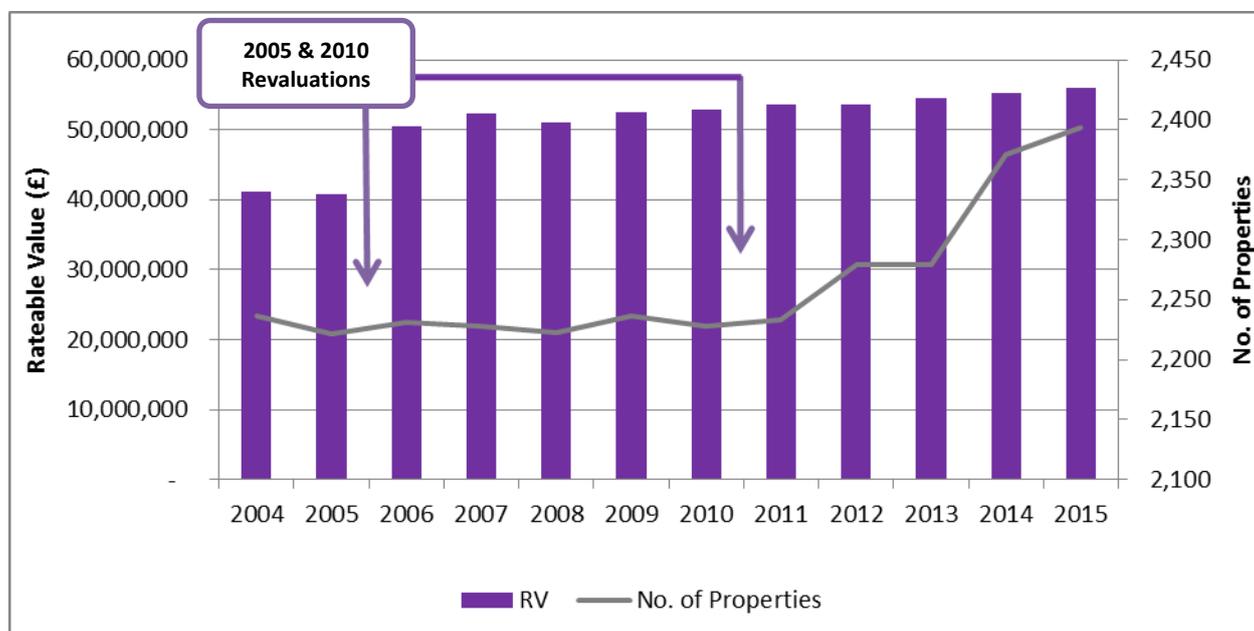
- 2.1 East Northamptonshire currently has 2,394 businesses within the district with a rateable value of £56.1m
- 2.2 93.6% (2,241) of these businesses have a rateable value (RV) of less than £50,000; they account for 34.2% (£19.2m) of the RV. This means 6.4% (153) businesses accounts for 65.8% (£36.9m) of the total RV.

A small proportion of total businesses make up the majority of the Rateable Value.

3.0 10 Year Business Rates Trend

- 3.1 The graph below shows the total value of business rates within East Northamptonshire (bars) and the total number of businesses (line) over the last 10 years.
- 3.2 The revaluation that took place in 2005 led to a significant increase in the rateable value of business within East Northamptonshire, as can be seen from the graph below. There was also a revaluation in 2010, although the effect of this on the overall level of rateable values was less pronounced.
- 3.3 During the period shown in the graph, the number of businesses has increased from around 2,250 to around 2,400.

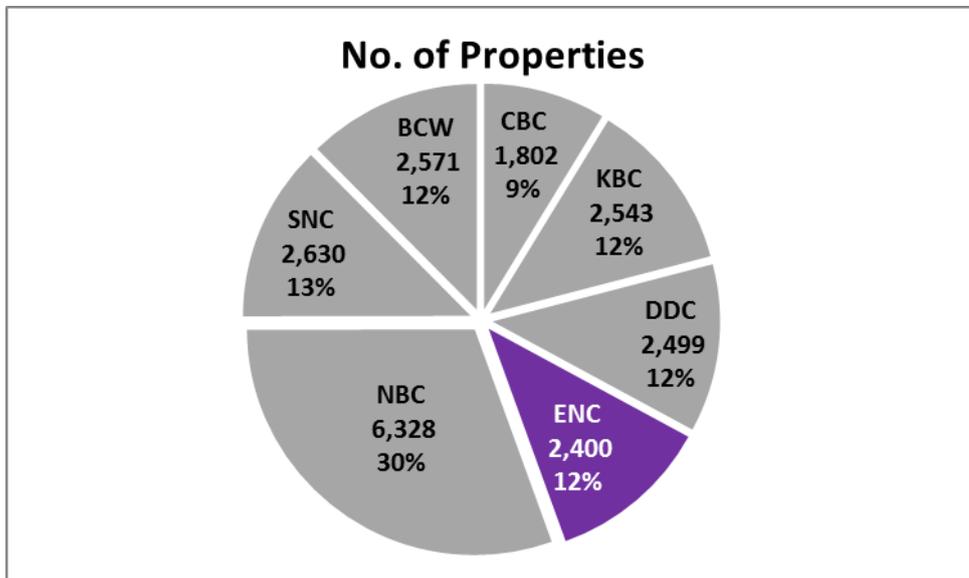
3.4



4.0 Comparisons with Neighbours

- 4.1 East Northamptonshire makes up around 12% of the total number of businesses across the County.

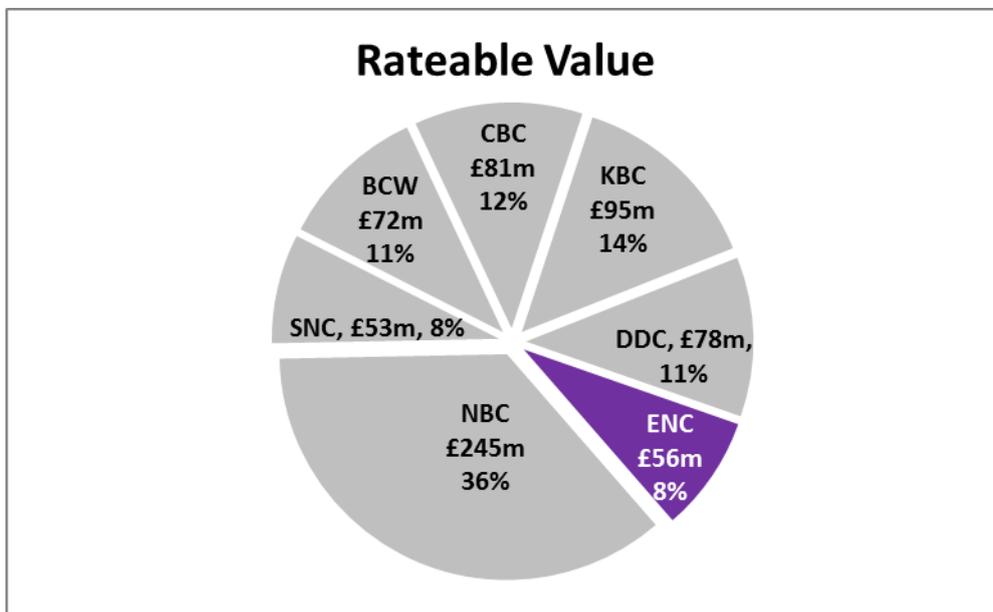
4.2



4.3 East Northamptonshire makes up around 8% of the total value of businesses across the County.

4.4 Changes to the value of businesses can have a significant impact upon business rates collected within the District.

4.5 The business rates retention scheme has highlighted the need to better understand movements and changes to businesses within the District.



5.0 Changes and Volatility

5.1 The main reason for reductions in rateable value over the past few years has been as a result of appeals lodged by businesses to the Valuation Office. The level and impact of appeals has been volatile and difficult to predict.

6.0 Forecasting Future Business Rates

6.1 The impact of other changes and volatility could have a significant impact upon the level of business rates collected by the authority. Additional work is currently being undertaken to understand the impact during 2014/15 better and assess the potential impact for future years.

6.2 Due to the amount of volatility being experienced in recent years, the Council is ensuring that it has the right information to support future growth projections.

- 6.3 The Council has set up a Business Rates Forecasting Group. This is made up of officers from Planning, Economic Development, Revenues and Finance. The aim of the group is to gather and analyse the business intelligence that is available to the Council and seek to forecast the amount of income the Council can retain in the future. Further revisions of the Business Rates forecasts by this group will be incorporated into the Council's budget and MTFs.

7.0 MTFs & Budget – Business Rates Forecasts

- 7.1 The assumptions within the Medium Term Financial Strategy (MTFS) in relation to business rates are shown in the table below. The baseline funding is based on the figures within the local government finance settlement. The growth figures and pooling benefit are based on the Council's latest modelling and business intelligence.

7.2	2015/16	2016/17	2017/18	2018/19
Baseline funding	£2,187,291	£2,252,910	£2,320,497	£2,390,112
Growth – general	£499,552	£519,552	£539,552	£539,552
Growth – Rushden Lakes	£0	£100,000	£300,000	£600,000
Pooling Benefit	£330,558	£330,558	£330,558	£330,558
Total	£3,017,402	£3,203,020	£3,490,608	£3,860,222

- 7.3 Since the draft budget was set, the Council has undertaken additional work to try to reach a forecast position which can be included in the final MTFs for February 2015. The Council is currently completing its business rates forecast for submission to Government by the end of January 2015. Completion of this form has enabled the Council to identify the amount of grant due, arising from the business rates measures announced by Government, such as the doubling of Small Business Rate Relief and localism reliefs. It is uncertain how long the grant will continue before this income forms part of general business rates funding in the future. As a result of this work, the Council expects to include the grant into its forecasts over the medium term.

8.0 Business Rates Pooling

- 8.1 When the Business Rates Retention Scheme came into operation in April 2013, all councils in the country had the option to “pool” their business rates. This was of particular interest for councils in two tier areas of the country, including Northamptonshire.
- 8.2 The benefit arising from pooling business rates is that councils can attract more financial resources into their local areas due to the way the Business Rates Retention Scheme works. In short, by district councils, which are “tariff” authorities, pooling their business rates with the county council, which is a “top up” authority, the whole area of the business rates pool is better off as the net effect of the pooled total means paying a lower share, or “levy” (which is around 22% for 2014/15, compared to the 50% it would be if there was no pool), of any business rates growth to Government. This means more monies are retained locally.
- 8.3 Prior to entering a business rates pool in Northamptonshire, there was significant financial modelling, discussion and negotiation that was undertaken to set up the best approach for all councils. In 2013/14 the expected financial benefit of pooling business rates was £1.7m. This would be shared out between the districts dependent upon where growth had occurred and shared 80:20 between district & borough councils and the county council respectively. The business rates pool is governed by a Memorandum of Understanding (MoU), which all parties have signed. The MoU sets out the methodology for calculating business rates, how the benefits are shared, how the administration costs are met and what happens if there are any disagreements or there is a change in composition of the pool.
- 8.4 The Northamptonshire business rates pool has worked extremely successfully for both the 2013/14 and 2014/15 financial years and generated around £3.2m of additional resources across the county, including £0.4m for East Northamptonshire Council.

- 8.5 For 2015/16, the composition of the Northamptonshire business rates pool is proposed to change. The reason for this change is to retain even more resources locally. The changes to the composition of the pool will see one council leaving the pool and another one joining. This will mean the “levy” rates for the pool will reduce from its current 22% to 0%. A submission has been made to Government to effect this change.
- 8.6 A new Memorandum of Understanding for those councils in the pool and a legally binding agreement for all council in the county were signed in October. They ensure that the key principles of the original pool are maintained, including no council in the pool receiving less money than if they had not pooled, the benefits being distributed based on where growth has occurred, and the pool being open to all councils in Northamptonshire. The composition of the pool will be reviewed on an annual basis to ensure the optimum mix of councils is included.
- 8.7 It is anticipated that the new pool for 2015/16 will generate an additional £3.8m of resources for Northamptonshire, including £0.5m for ENC.

9.0 Equality and Diversity Implications

- 9.1 There are no equality and diversity implications resulting from this paper.

10.0 Legal Implications

- 10.1 There are no legal implications resulting from this paper.

11.0 Risk Management

- 11.1 There are a number of risks arising from the Business Rates Retention Scheme and pooling. The key risks are:
- Business rates volatility. This volatility includes deletion of property from the rateable value list, demolitions, changes of use/circumstance, etc. Under the new Scheme these are shared between Government (50%), ENC (40%) and NCC (10%). The council is mitigating these by establishing intelligence sharing across the council (Planning, Revenues and Finance) through its Business Rates Growth Group.
 - Appeals against rateable value by companies. Currently this is a significant risk. Whilst the majority of these appeals have been unsuccessful, the Valuation Office expects based on historic evidence an average reduction following a successful appeal of 5%. There are a lot of appeals still outstanding. To mitigate the potential impact of appeals, the council is working closely with the Valuation Office and is making a provision in its business rates estimates, as expected by Government, to account for future successful appeals.
 - Inaccurate growth forecasts. The risk to growth forecasts is two fold. Firstly, the level of business rates, as this is only based on high level information initially and it is not until the Valuation Office has visited the completed building that a final valuation is known. Secondly, the risk that estimated timing of business rates on new premises is incorrect.
 - Lack of skilled resource and business intelligence

12.0 Resource and Financial Implications

- 12.1 The resource and financial implications are outlined in Sections 3 and 4 of the report.

13.0 Corporate Outcomes

- 13.1 The Corporate Outcomes related to this paper are:
- Good Value for Money – ensuring we maximise our funding.
 - Effective Management – ensuring we proactively manage our business rates position.

14.0 Recommendation

- 14.1 The Committee is recommended to note the Business Rates update
(Reason – To provide members with update position of the Business rates position)

Legal	Power:				
	Other considerations:				
Background Papers: MTFS Report February 2013, MTFS Report February 2014 and Budget Monitoring Reports throughout 2013/14 and 2014/15					
Person Originating Report: Glenn Hammons, Chief Finance Officer ☎ 01832 74(2267) ✉ ghammons@east-northamptonshire.gov.uk					
Date: 15/01/2015					
CFO		MO		CX	