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OXFORD CITY COUNCIL

To: **Audit and Governance Committee**

Date: **15 September 2015**

Report of: **Head of Financial Services**

Title of Report: **Business Rates Collection and Retention**

Summary and Recommendations

Purpose of report: To update members on Business Rates Collection and Retention and associated risks.

Key decision: **No**

Executive lead member: **Councillor Ed Turner**

Policy Framework: **Efficient and effective Council**

Recommendation(s):

That the Committee: Note the report

Appendices
None

Background

1. At their meeting of June 29th 2015, Audit and Governance Committee requested further details about business rates and associated risks.

2. Until 31st March 2013, Business Rates were collected by Councils and paid over to Central Government in their entirety; there was no impact on collecting authorities and all risk was borne by Central Government. The Government redistributed Business Rates revenues on a formulaic basis as part of the Local Government Finance Settlement. From 1 April 2013 this changed.

3. A Council's funding from Business Rates is now directly dependant on the amount of Business Rates collected locally. Business Rates collected, after allowing for appeals and losses on collection are split 50/50 between

the Billing Authority (Oxford City Council) and Central Government. This split is known as the Local and Central Share respectively. The Billing Authority in turn, splits the local share between itself and the upper tier authority (Oxfordshire County Council) on a prescribed 80/20 basis. A tariff payment is paid, in the City Councils Case (in line with other illing authorities), increased in line with inflation each year, to Central Government. The remaining amount is then compared to the 'Baseline Funding Figure (for Oxford City this is £ 5.682 million for 2015/16) and a levy of 50% on any excess is payable to the Government, leaving the balance with the Billing Authority.

4. The calculation of this (based on the 2015/16 budget) is as follows: -

		£000s
A)	**Net Business Rates Yield** (including section 31 grants[1])	86,466
B)	**Central / Local Share**: -	
	Amount to be paid to Central Government (50%xA)	43,233
	Local Share (50%xA)	43,233
C)	**Split between Lower and Upper tier Authorities**	
	Billing Authority (80% of Local Share) (80%xB)	34,586
	County Council (20% of Local Share) (20%xB)	8,647
		43,233
	Billing Authority Share (C)	34,586
D)	Less Tariff	27,480
E)	Amount after tariff (C-D)	7,106
F)	Baseline	5,682
G)	Additional Income above baseline (E-F)	1,424
H)	Levy (50% payable to Central Government)	712
	Total income retained by authority (E-H)	**6,394**

Business Rates Risks

5. Business Rates yield can vary due to appeals, losses on collection and business closures or start-ups. Risk is compounded where there is a predominance of a particular type of business in an area or where there are one or two very large business failures of which would have a significant impact on the total rateable value for the area. Hence the resulting amount of income derived from Retained Business Rates can

[1] Section 31 grants are paid by Government to local authorities to recompense local authorities for the costs incurred by them as a result of Government policy. In respect of Business Rates, these are paid to recompense Councils for the additional Business Rates reliefs announced by Government in budget statements.

also vary. This risk is now shared between central government, and local government. In the City Council's case the base risk is shared between the Government, the City and County Council broadly in the percentages 50% / 40% / 10% respectively.

6. The Government have set a "safety net" which applies if Business Rates income falls by more than 7.5% compared to the Baseline Funding Level. This limits a Billing Authority's exposure to risk and increases the Government's. In the City's case the maximum loss below the baseline is £426,116 for 2015/16.

7. However, if a Council budgets for income to be above the baseline and then falls into a safety net position, the loss will be the amount budgeted above the baseline PLUS the 7.5% explained above. For Oxford City the level of risk in the 2015/16 budget is approximately £1.138 million, (£712k plus 7.5% of £5.682 m).

Accounting for Business Rates

8. Normal accounting practice would mean that the Council would receive income in its General Fund for amounts due in the financial year in question. However, legislation was introduced to over-ride normal accounting practice. The result is that, Business Rates income operates in a similar way to Council Tax. To use the example of Council Tax, the amount the Council receives in its General Fund in any financial year is the amount included in the budget as its precept plus / minus the Council Tax Collection Fund surplus / deficit from the year preceding last financial year. For Business Rates, the position is broadly similar in that the income is based on the Council's first business rates return for the year (the NNDR1) and the surplus / deficit on the Business Rates Collection Fund from the year preceding the last financial year.

9. There is an exception to this which is that any levies due to the Government or safety net payments payable by the Government are accounted for in the year in which they become due.

10. The amounts charged to the Council's Income and Expenditure account have to agree with normal accounting practice. Hence the adjustments relating to the statutory over-ride are managed through the Movement in Reserves Statement to the Collection Fund Adjustment Account. This means that the amount recorded in the accounts for a particular year is the amount calculated from the first business rates return for that year (called the NNDR1) adjusted by any levies or payments of safety net due.

11. This has the perverse effect of meaning that if a Council falls into a safety net position in a particular year but hadn't expected to on its NNDR1, the Council will receive additional income in that year. Also if a Council has more growth than it was originally anticipating on its NNDR1, a levy will be payable on that additional growth which will be charged to the General Fund in that year meaning that the additional growth will lead to lower income received for that particular year.

The compensating adjustments are made to the General Fund in subsequent financial years. For this reason it is prudent to create an earmarked reserve to deal with these timing issues. This is the approach that has been taken in Oxford.

Business Rates Appeals in 2014/15 and their impact

12. The budget for 2014/15 was calculated in the same way as that for 2015/16 as follows: -

		£000s
A)	**Net Business Rates Yield** (including section 31 grants)	84,046
B)	Central / Local Share: -	
	Amount to be paid to Central Government (50%xA)	42,023
	Local Share (50%xA)	42,023
C)	**Split between Lower and Upper tier Authorities**	
	Billing Authority (80% of Local Share) (80%xB)	33,618
	County Council (20% of Local Share) (20%xB)	8,405
		42,023
	Billing Authority Share (C)	33,618
D)	Less Tariff	26,965
E)	Amount after tariff (C-D)	6,653
F)	Baseline	5,575
G)	Additional Income above baseline (E-F)	1,078
H	Levy (50% payable to Central Government)	539
	Total income retained by authority (E-H)	**6,114**

13. A deadline of 31st March 2015 was imposed for most backdated appeals by the Government; the draft statutory instrument was published on 27th February 2015 and became law on 28th March 2015. Consequently, the Council experienced a far higher level of appeals activity than anticipated. The value of appeals submitted by businesses at 31st March 2015 that are anticipated to be upheld is approximately £12.9 million. The Collection Funds provision for appeals was subsequently increased at year end by £12.8 million. This pushed the Council into a safety net position for 2014/15.

14. The Government will pay the Council the difference (£2.090 million) between the calculated amount and the safety net so that the Council receives an amount equal to the safety net figure.

15. For 2014/15 the Council received the amount calculated on the NNDR1 Form submitted to Government in January 2014, adjusted by any accruedsafety net payments.

16. The National Non Domestic Rates (NNDR) Collection Fund balance for the year is the difference between the estimated amount of NNDR calculated on the NNDR1 form and the actual in year activity. This is distributed in the following financial year between the main preceptors in line with their precepts. There is a deficit on the NNDR Collection Fund for 2014/15 of £10.5 million due to the level of appeals. The City Council's share is £4.2 million. The Collection Fund deficit will be charged to the General Fund in 2016/17, after it has been included on the NNDR1 for that year.

17. The Council set aside an additional £2.7m in the Business Rates Reserve in 2014/15 (shown below) thereby bringing the balance to £3.328 million as at 31st March 2015.

	2014-15
	£000's
Amount Credited to the General Fund	8,843
Budget for 2014/15	(6,114)
Amount transferred to Earmarked Reserves	2,729

18. This will be used to offset the deficit in 2016/17. Looking at this in isolation, the net impact on the Council's General Fund Medium Term Financial Plan is therefore £0.874 million as shown below : -

	2016-17
	£000's
Share of Deficit for 2014/15	4,202
Earmarked Reserves b/f	3,328
Loss incurred in 2016/17	874

This will be factored into the refresh of the Council's Medium Term Financial Planning process.

Budgeting Uncertainties

19. As indicated above there is a high level of uncertainty around budgeting for business rates income and for forecasting a year end position. This is down to three key factors:

Appeals

20. The level of appeals submitted in a given financial year is impossible to accurately predict. Appeals can affect just the current financial year or be backdated into previous financial years, leading to a cumulative impact in the year the appeal is settled. .

Business closure or start-up

21. New rateable premises can be predicted to an extent using planning information and monitoring new development, although precise timing is uncertain and rateable values are still reliant on the judgement of the local Valuation Office. Business closures are almost entirely unpredictable in the medium term and even in the short term could only be predicted with detailed and time-consuming market analysis which is beyond the capacity of Council's Revenues Team.

Changes to rateable values

22. There are a number of reasons why rateable values can be changed, most of which are unpredictable and subject to the rulings of the local Valuation Office and national assessments. An example would be :
    - A general reduction in rateable values applied by the local valuation office to City Centre businesses due to the closure of the Westgate Centre
    - A national ruling around doctor's surgeries to award business rates reductions

Potential Business Rates loss from 2015/16

23. There is an on-going pressure in 2015/16 arising from the appeals in 2014/15 which is currently estimated at £0.230 million. Again, this will not be charged to the General Fund until after it is included in the NNDR1 return for 2016/17.

24. Appeals calculations included in the 2014/15 accounts are estimates based on information provided by the Valuation Office at the year end and subsequently assessed by a specialist company (Analyse Local) to determine the probability of success. The Council reviewed the list to identify whether any of the appeals were on premises in receipt of discounts (for instance charitable relief) and adjusted the impact accordingly. Regardless, given the volume of appeals received it is inevitable the actual impact will vary from the estimate.

25. There is also the potential for new appeals to be reported in 2015/16 which would also have an impact on the Council's Business Rates income over and above the £0.230 million already predicted.

Climate Change / Environmental Impact

26. There are no issues arising directly from this report

Equalities impact
27. There are no equalities impacts arising directly from this report

Financial Implications
28. All financial implications are covered in the body of this report.

Legal Implications
29. There are no legal implications directly relevant to this report.

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