

CABINET
7 Feb 2019

NNDR 1 for 2019/20

Cabinet Member: Cllr Peter Hare-Scott
Responsible Officer: Andrew Jarrett - Deputy Chief Executive (S151)

Reason for Report: To provide Members with an update of the income generation and financial implications of the number of Business Rate properties in Mid Devon and to approve the NNDR1 (estimated income to be generated in 2019/20 from business rates).

RECOMMENDATIONS:

- 1. That the calculation of the NNDR1 net yield of £15.500m from 3,079 Business Rated properties is noted and approved for 2019/20;**
- 2. That the proportions distributed to the respective authorities and Central Government be allocated as per the statutory regulations; and**
- 3. That Members note and approve that Central Government will reimburse the Council through a Section 31 grant to compensate it for the reduction in collectable business rates as a result of introducing reliefs.**

Relationship to Corporate Plan:

1. This report sets out the estimated net business rates for 2019/20; the estimate will then be used in the calculation of future Council business rates budgets.
2. This report is in line with the Council's Corporate Plan objectives and is essential to delivering the necessary funding to balance the 2019/20 General Fund Revenue budget.

Financial Implications: Mid Devon District Council is a Statutory Billing Authority and has a duty to carry out this task each year as part of the budgetary process.

Legal Implications: This is a statutory function and is a legal requirement. The Council must set its budget annually based on the taxbase and the NNDR1 projected values.

Risk Assessment: If the Council fails to carry out this duty, then it will not be able to forecast its future budget positions. The calculation of the NNDR1 involves a number of estimates made by professional officers, but due to the volatility and uncertainty of Business Rates appeals and Central Government retention policies, the Council holds a Business Rates Smoothing Reserve which can be used to mitigate fluctuations in Business Rates receipts.

Equality Impact Assessment: No equality issues identified for this report.

1.0 Introduction

- 1.1 Prior to 1 April 2013, all billing authorities collected the business rates in their area and passed this money onto a Central Government pool. The pool was then redistributed to local authorities throughout the country based on their needs, resources and the services they provide to their community. For example, one billing authority may collect £15m and only require £10m to run its services, whereas another billing authority may collect £10m and require £15m to run its services. The shortfall and excess was then redistributed by Central Government through a fixed sum as part of the Formula Grant Settlement.

2.0 Business rates retention scheme

- 2.1 From 1 April 2013, Central Government changed the way this financing is distributed. Each billing authority now has to forecast the amount of revenue it will generate from business rates and then redistribute that income between Central Government, the county council, the fire authority and itself, based on a centrally prescribed formula (see below). The Business Rates Retention Scheme as it is now known, also allows the billing authority to keep a share of the increase in revenue it generates, therefore encouraging billing authorities to encourage business growth in its area. However, the converse of this applies and if a billing authority's business rates decline, the District Council (i.e. MDDC) will see a proportionate drop in revenue.
- 2.2 This is the key difference between the old and new schemes. As under the old business rates scheme, the level of funding was determined at the beginning of the year and was fixed thereafter.
- 2.3 In order to assist local authorities in retaining revenue within the counties, Central Government allowed county councils and district councils to join together to pool their growth and offset the growth of one area against a decline in another area. Effectively, this creates a larger critical mass across the county to alleviate exposure to individual authority losses, thus enabling counties and districts to retain more of the rates collected instead of contributing this money to the central pool. Mid Devon District Council joined the Devon County-wide pool in 2014 and will remain in the pool for 2019/20.
- 2.4 This report details the calculations necessary to determine the estimated debit the Council is expected to collect in business rates for the 2019/20 year. The net collectable debit is then split proportionally in accordance with the provisions of the Local Government Finance Settlement issued in December 2018 which enables the whole of Devon to have a 50% rates retention, subject to tariffs or levies. The Council continues its Pool membership with the other Devon councils to maximise the amount of Business Rates it can retain. As detailed in 3.5, the Pool was given "Pilot" status in 2018/19 and we were able to retain 100% of Business Rates growth income but unfortunately this was a one year only arrangement and we were unsuccessful in our bid for a 75% Pilot in 2019/20. Therefore, we revert to the 2017/18 distribution arrangements. The tier split for Devon is as follows:

- 9% is distributed to Devon County Council
- 40% is kept by Mid Devon District Council
- 1% is distributed to the Devon & Somerset Fire & Rescue Authority

2.5 The New 2017 Valuation list took effect from 1st April 2017 and the overall effect of these changes is settling down now.

3.0 S31 grant and reduced business rates income

3.1 The Chancellor of the Exchequer announced changes to the Business Rates system in his Autumn Statement for 2018, and councils once again will be compensated for the loss by means of a “S31” Government grant in recognition of the lower amount of business rates that would otherwise become due.

3.2 The main changes/announcements are as follows:

- **A Retail Discount scheme** for occupied retail properties with a rateable value (RV) of less than £51,000 in each of the years 2019/20 and 2020/21. The Retail Discount scheme will reduce rates payable by one third after all other reliefs including transition relief has been applied, subject to state aid limits.
- The Government will introduce a 100% business rates relief for **all public lavatories** (implementation date to be confirmed).
- The Government will continue the £1,500 business rates discount for office space of **local newspapers** in 2019/20.

3.3 The following reliefs will continue:

- The **Discretionary Rate Relief** scheme introduced from 1st April 2017 will continue for 2019/20 and 2020/21.
- **Rural Rate Relief** which was previously doubled will continue.
- The **Small Business Rate Relief** scheme has seen the eligible RV threshold doubled to £12,000 and is now permanent. These ratepayers will receive 100% relief. All ratepayers whose RV is between £12,000 and £15,000 will receive tapered relief and all those ratepayers between RV £15,000 and RV £51,000 will pay their rates based on the lower multiplier.

3.4 Appendix 1 shows the estimated net yield from business rates for 2019/20 set out in the NNDR1 return. The Council is notionally able to keep 40% of the total business rates it collects and this would generate an estimated £6.20m (i.e. £15.500m - 40%). In addition to this, we receive £57k from the DCLG as a grant towards collecting the years’ business rates and retain income from renewable energy schemes of £126k.

3.5 As part of the Provisional Settlement received in December 2018 from the Ministry of Housing, Communities and Local Government, it was determined that MDDC’s Business Rates Funding Baseline would be £2.2m (i.e. its financial need). This reflects our return to the 50% Government Share arrangement. Last year (2018/19) we were granted Pilot status alongside our other Devon Pool members and were able to retain 100% of our Business Rates growth, unfortunately this was for one year only.

4.0 Conclusion

- 4.1 Due to the associated volatility and significant sums of revenue involved, we will continue to maintain a Business Rates Smoothing Reserve and provide Members with regular updates on the level of business rates being collected during 2019/20.

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Background Papers: CTB1 and supporting documentation

File Reference: JFC/G/CTB1

Circulation of Report: Cllr Peter Hare-Scott, Management Team