

Appendix A

BUSINESS RATES RETENTION SCHEME

1. 2013/14 Settlement

The new Business Rates Retention Scheme came into effect on 01 April 2013. Prior to its introduction all business rate income collected by the Council was passed over to central Government. It received some of that income back, but this was fixed, and dependent wholly upon each year's Settlement. Under the new system the Council still collects the income but now retains a proportion itself and passes the remainder to the Government, the County Council and the Fire Authority. The basis of the split is determined by Government and the 2013/14 settlement figures are shown below.

Net Amount of Business Rates collectable	£60.083M
Central Government Share – 50%	-£30.042M
Lancashire County Council Share – 9%	-£5.407M
Fire Authority Share – 1%	<u>-£0.601M</u>
Amount Retained by City Council	£24.033M
Less Central Government Tariff*	<u>-£19.021M</u>
City Council Baseline Funding Level	£5.012M

* The Tariff is the difference between how much the Government determines the Council needs (its Baseline Funding Level) and the amount left after deducting the other shares.

2. Impact of Appeals

The system is however, susceptible to fluctuations in income levels, a key factor being that there are always appeals against rating valuations (RVs). At present, revaluations take place broadly every 5 years (2005 & 2010), which inevitably result in appeals as businesses dispute the amount they have to pay.

The current value of RVs under dispute in this district is £100M, of which £68M is in relation to two exceptionally large hereditaments. Success in appeals varies, but over the last 12 months on average 60% were successful, resulting in an average reduction in rateable value of 12.6%. Successful appeals result in refunds to the business, calculated by taking the RV reduction and multiplying it by the business rate multiplier for each year since the appeal was lodged, and then adding on lost interest. For this district, a reasonable estimate is that over £24M of rate refunds may need to be repaid. However, provisions are in place to limit the financial impact on the City Council (and County/Fire), as set out in section 3 below.

Clearly all appeals are not going to be settled at the same time and there is currently a 9 month backlog. However, the Government has pledged to clear 95% of the backlog by July 2015.

3. Levy Payments and Safety Nets

The success of any appeals and their timing can impact significantly on income projections, and clearly councils could not fund any such huge drops in income that may arise. For this reason, the Government has determined that no Council will suffer more than a 7.5% loss in income in any one year, if net business rates income falls. This cut off is known as the Safety Net and is equivalent to 92.5% of the Council's Baseline Funding Level.

Baseline Funding Level	£5.012M
Safety Net @ 92.5%	<u>£4.636M</u>
Limit of Financial Impact	£0.376M

Similarly, the Government has also determined that Councils experiencing significant growth in business rates income will only be able to keep 50%, with the other half going to Central Government. The idea behind this is that the 'excess' income from growth will go towards funding the losses in income over and above the individual Council safety nets.

4. Small Business Rate Relief

In the Autumn Statement, the Government pledged to continue the same level of Small Business Rate Relief (SBRR) for 2014/15 as well as adding some additional forms of support. As these reliefs directly impact on the income collected, the Government has confirmed it will reimburse all Councils for 100% of the lost income for 2013/14 and 2014/15. Initial forecasts show that this could be in the region of £600K for the current year and £1.2M for 2014/15. However, if this reimbursement, when added to the net income for business rates, takes the total over and above the Baseline Funding Level, then again 50% will go back to Central Government.

For information, the grant is being paid to Councils as a Section 31 General Fund grant.

5. Overall Financial Position

Based on the latest forecasts, it is estimated there will be a total deficit of £12.565M in 2013/14 on the Collection Fund in respect of Business Rates. The main reason for this is that under current accounting practices provision has to be made for the potential cost of outstanding appeals based on estimates of success. A breakdown of the position is shown below:

	Settlement £M	Original Forecast (NDR1) £M	Latest Forecast £M	Difference: Original to Latest £M
Net Income excluding Appeals	N/A	67.892	68.809	0.917
Provision for Appeals	N/A	-6.030	-19.512	-13.482
Business Rates Collectable	60.083	61.862	49.297	-12.565
Less:				(Deficit)
Central Govt Share – 50%	-30.042	-30.931	-30.931	
County & Fire – 10%	-6.008	-6.186	-6.186	
Amount Retained by Lancaster	24.033	24.745	12.180	
Less Central Govt Tariff	-19.021	-19.021	-19.021	
Baseline Funding Level	5.012	5.724	-6.841	
Add SBRR S31 Grant			0.608	
Less Safety Net			-4.636	
Safety Net Payment Due			-10.869	

The table shows the changes in assumptions from the original forecast to the latest position. Overall there has been additional income of £917K but an increase of £13.482M in the provision for appeals. This increase is due to the fact that when the original provision for appeals was calculated, it was based on the Valuation Office (VO) national average success rate of 25%. As the year has progressed, Officers now have access to more detailed information from the VO, and therefore a more accurate percentage has been used based on the average success rate for the Lancaster district over the last 12 months. This has resulted in the success rate being increased from 25% to 60%, which therefore significantly increases the provision required.

The latest forecast column shows that after allowing for the SBRR grant the Council is due back a safety net payment of £10.869M. This will mean the Council's baseline funding is now capped at £4.636M compared to the Settlement figure of £5.012M, thus resulting in a loss in income of £367K.

6. 2014/15 Forecasts

The position for 2014/15 is somewhat different as can be seen in the table below. The latest forecast shows that after allowing for the SBRR grant (£1.199M) and the 50% levy payment (£1.122M) the amount of additional income retained by the Council will be £1.122M. However, there is considerable uncertainty on whether this improved position will materialise, as highlighted in section 7.

	Provisional Settlement £M	Forecast (NNDR1) £M
Net Income excluding Appeals	N/A	68.438
Provision for Appeals	N/A	-5.145
Business Rates Collectable	61.256	63.293
Less:		
Central Govt Share – 50%	-30.628	-31.647
County & Fire – 10%	-6.126	-6.329
Amount Retained by Lancaster	24.502	25.546
Less Central Govt Tariff	-19.392	-19.392
Baseline Funding Level	5.109	6.154
Add SBRR S31 Grant		1.199
Less Settlement Baseline Funding		-5.109
Growth		2.244
Less Levy Payment of 50%		-1.122
Forecast Retained Growth		1.122

7. Risks and Assumptions

The major risk in all these calculations centres on the assumptions made about the appeals success rates. As the Council has the highest level of expected appeals in the County, it is highly vulnerable to significant changes in income. A change of only 8% in the forecast on the two largest appeals would result in the Council moving into a safety net position again. It is for this reason that funds will be set aside in a new reserve, to provide cover in the event that the Council falls into a safety net position for 2014/15. Furthermore, for 2015/16 and 2016/17 Government funding prospects are now £400K lower in the event that a similar situation arises. There are, however, many other changes that could arise regarding Local Government funding in the intervening period.