

Meeting: EXECUTIVE

Portfolio Area: Resources

Agenda Item:

**8**  
(REVISED)

Date: 11 FEBRUARY 2014

## ADDENDUM TO FINAL 2014/2015 COUNCIL TAX SETTING AND GENERAL FUND BUDGET

### KEY DECISION

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#### 1. PURPOSE

- 1.1 To update Members on the amount of 2014/15 Business Rates to be retained by Stevenage Borough Council since the Final 2014/15 Council Tax setting and General Fund Budget report was published for the February Executive.

#### 2. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

- 2.1 Since the Final 2014/15 Council Tax setting and General Fund budget report was published the Government has subsequently issued guidelines for calculating the safety net and levy payments for 2014/15. The safety net is payable from the Government when a Council's estimated retained business rates falls below a set amount, which is currently more than 7.5% of a Council's baseline business rates (calculated by the Government and £2,291,019 for Stevenage). Conversely a levy is payable to the Government on retained business rates that exceed a Council's baseline business rates. The levy rate for Stevenage is 50% of additional income above the baseline amount for any year.
- 2.2 The calculation is further complicated in 2014/15 as the Government is paying Council's a grant (section 31 grant) for a number of initiatives introduced as part of the Autumn Statement. However one of the section 31 grant payments is excluded from the calculation for levy and safety net payments. This grant relates to the 2% cap on the small business rate relief and totals **£192,857** for Stevenage and is in addition to the calculated resources assumed in the budget setting report.
- 2.3 The levy and safety net formula takes a slightly different calculation for section 31 grants compared to the actual amount of grant paid. The over all section 31 grant to be paid is an estimated **£163,428** lower than included in the safety net and levy calculations and is in addition to the calculated resources assumed in the budget setting report. This gives an overall increase in grant **of £29,429**.

ADDENDUM

- 2.4 In the budget report (prior to the guidance being issued) the most prudent position had been assumed for 2014/15 retained Business Rates. The assumptions made were that as the impact of the 2013/14 Business Rates would be adjusted in the Council's 2014/15 accounts the two years would be added together (as shown in the extract from the Budget report), this resulted in the Council requiring a safety payment of £364,955 in 2014/15.

Extract from Budget Report	Business Rates for 2014/15
2014/15 NNDR Yield	(45,136,413)
2013/14 Deficit	2,760,088
<b>Total</b>	<b>(42,376,325)</b>
40% of Yield	(16,950,530)
Tariff	15,933,660
S31 Grant	(737,368)
<b>Total</b>	<b>(1,754,238)</b>
Baseline Funding*	(2,291,019)
Loss	<b>536,781</b>
Funded by Stevenage (*7.5% of the Base Line funding for 2014/15)	171,826
Funded by Government	364,955
<b>Total Grant Received in 2014/15</b>	<b>(2,119,193)</b>

- 2.5 However under the published guidance each year is treated individually, so that for the financial year 2013/14 the calculation would mean a safety net payment would be due from the Government, but in 2014/15 a levy would be payable to the Government. The revised calculation means a further **£233,555** would be due to the Council for 2014/15.
- 2.6 The revised 2013/14 deficit position will be included in the General Fund's 2014/15 accounts. The actual safety net payment will be calculated based on the final accounts claim, (NNDR 3 claim) which is audited and must be included in the 2013/14 accounts. This creates a mismatch between financial years whereby the loss relating to 2013/14 will be in the 2014/15 accounts but the original income assumed in the accounts based on the NNDR 1 and the safety net payment will be included in the 2013/14 accounts. Officers will transfer the safety net payment to reserve and transfer the income back to the General Fund in 2014/15.
- 2.7 The revised calculation is shown in the table below:

Revised Calculation	2013/14	2014/15	Total
NNDR Yield	(41,889,743)	(45,136,413)	
40% of Yield	(16,755,897)	(18,054,565)	
Tariff	15,629,086	15,933,660	
S31 Grant	(150,698)	(538,792)	
<b>Total</b>	<b>(1,277,509)</b>	<b>(2,659,697)</b>	
Baseline Funding	(2,247,242)	(2,291,019)	
Loss/(surplus)	<b>969,733</b>	<b>(368,678)</b>	
<b>Safety Net Calculation:</b>			
Funded by Stevenage	168,543	0	
Funded by Government	801,190	0	
<b>Levy Calculation:</b>			
Levy due to the Government		184,339	
Loss in assumed in Accounts	16,504		
Section 31 Grant excluded		(29,429)	
<b>Total</b>	<b>152,039</b>	<b>(2,504,787)</b>	<b>(2,352,748)</b>
<b>Included in Budget Report</b>			<b>(2,119,193)</b>
<b>Increase in Resources</b>			<b>(233,555)</b>

2.8 Members will notice that the NNDR yield is much lower in 2013/14 when compared to 2014/15, this is because officers have revised the value of backdated appeals that potentially will succeed and which as a consequence will have to be repaid to businesses and also reduces the rateable value on which the Council can collect rates.

2.9 The yield in 2014/15 has been reduced to reflect:

- Properties that may transfer from business to residential use
- An estimation of the reduction in the yield as a result of the majority of appeals being settled in 2014/15
- An estimation of the reduction in the yield as a result of schools changing to academy status attracting charitable relief.

The table below compares the 2013/14 Original estimate with the revised 2013/14 and the 2014/15 original estimate.

<b>Business Rate Yield</b>	<b>NNDR 1 2013/14</b>	<b>NNDR 1 Revised</b>	<b>NNDR1 2014/15</b>
Gross Yield after reliefs Section 31 Reliefs	(48,478,182)	(49,312,717)	(48,043,782) 944,813
<b>Total</b>	<b>(48,478,182)</b>	<b>(49,312,717)</b>	<b>(47,098,969)</b>
Provision for bad debts	950,000	950,000	950,000
Provision for Appeals	2,765,273	6,650,664	900,000
Cost of Collection allowance	113,077	112,556	112,556
<b>Total</b>	<b>(44,649,832)</b>	<b>(41,599,497)</b>	<b>(45,136,413)</b>

- 2.10 Although there is an increase in the income assumed for business rates in 2014/15 the final amounts will not be actually known until after the year end for each individual year. There are a lot of unknowns particularly around appeals which may be successful and the appeals estimates shown above and included in the NNDR 1 are based on historical success data. Furthermore it is unclear at the present time how the Valuation Office will be able to deal with the backlog of appeals. However going forward it is likely that the Council's share of retained business rates will be higher than the baseline assumptions if the current assumptions regarding the level of Business Rate yield and annual cost of new appeals is in the region of £900,000. Based on current calculations this is likely to be in the region of £250,000 additional come retained by Stevenage Borough Council.
- 2.11 The Council also received a letter from the Government which confirmed that the Council would be reimbursed for the temporary extension of the Business Rate Relief scheme and this equates to an estimated £150,698 in 2013/14. The final figure will not be known until the NNDR3 claim has been completed and audited. However this is included in the safety net calculation for the year and does not result in an increase in resources. This is because the retained income increases by £150,698 and the safety net payment reduces by £150,698.