ANNEX A

APPROVAL OF THE NATIONAL NON-DOMESTIC RATES RETURN 1 FOR 2013/14

1. Introduction

1.1 The Council is required to provide an annual forecast of the net business rates it expects to collect in the year. The forecast is provided in the National Non-Domestic Rates Return 1 (NNDR1). In previous years this return has been agreed and signed off by officers of the Council, however, for 2013/14 and subsequent years the return needs to be approved by members.

1.2 The NNDR1 form has to be completed in accordance with a set of guidance notes issued by the Department for Communities and Local Government (DCLG). Some parts of the form are pre-populated using information provided by the Valuation Office Agency (VOA), other parts are based on figures extracted from the Authority's business rates data base (Northgate), and others are completed based on officers best estimates based on past experience or other available data.

1.3 From 1 April 2013 local authorities will retain a share of the business rates they collect. Sefton's share is 49% of the Net Rate Yield excluding transitional arrangements but after rate retention adjustments shown on line 36 of the return. The remaining business rates will be paid to the Government (50%) and to Merseyside Fire Service (1%).

1.4 The completed return now forms part of the Council's budget setting process in a similar way to the setting of its Council Tax Base. The local share of forecast business rates will be built into the budget and medium term financial plan from 2013/14.

1.5 This Annex sets out the sources of the data used as well as the basis of any estimates or assumptions used to complete the NNDR1 return.

2. Completing the NNDR1 Form

2.1 A copy of the completed NNDR1 return is attached as Annex B to this report. The following table summarises the key information contained in the return.

Line	**Description**	**Value**
1.	Number of hereditaments at 30 September 2012	7,536
2.	Aggregate rateable value at 30 September 2012	£180,255,141
3.	**Gross Rate Yield**	**£83,277,875**
12.	Mandatory Reliefs (lines 4 to 12)	-£11,581,088
19	Discretionary reliefs (lines 13 to 18)	-£283,223
20.	**Gross Rate Yield after reliefs**	**£71,413,564**
21.	Estimate of losses in collection	-£1,142,617
22.	Allowance for Cost of Collection	-£322,252
34.	Estimate of change in receipts as a result of change in rateable value between 1 October 2012 and 30 September 2013.	-£832,779
35.	Estimate of adjustment due to appeals	-£3,570,678
36	**Net Rate Yield before transitional arrangements**	**£65,545,238**
39.	Net cost of transitional arrangements	£687,448
40.	**Net Rate Yield after transitional arrangements**	**£66,232,686**

2.2 The majority of the information provided in the NNDR1 return is based on data extracted from the Council's business rates data base (Northgate). This includes the level of mandatory relief (lines 4 to 11), discretionary relief (lines 13 to 18) and transitional relief (lines 37 and 38). Other lines in the form have been populated with data provided by the Valuation Office Agency (lines 2, 3 and 4) or by the DCLG (line 22). The authority does not have an enterprise zone in its area or new development deal, so no amounts have been recorded in lines 24 to 30. The authority is not expecting to benefit from renewable energy deals in 2013/14 so no estimate has been included in line 31.

2.3 In order to complete the return the Authority is also required to provide estimates in respect of 'losses in collection' (line 21), 'change in rateable value between 1 October 2012 and 30 September 2013' (line 33, and 'adjustment due to appeals' (line 35). These estimates have been prepared on the following basis:

<u>Estimated losses in collection (line 21)</u>: Estimated at -1.6% of the gross rate yield after reliefs recorded in line 20. The estimate is approximately equal to the average level of write-offs in 2010/11 (£1.264m) and 2011/12 (£1.057m). This is marginally higher than the -1.4% estimate previously used by the DCLG in the 2012/13 NNDR1 return.

<u>Estimated change in rateable value between 1 October 2012 and 30 September 2013 (line 33):</u> Estimated at -1.0% of the aggregate rateable value recorded in line 3. This estimate is approximately equal to the average percentage change in rateable value recorded over the last two years as shown in the table below:

NNDR1	Gross Rateable Value	Change in Rateable Value	Percentage Change
2011/12	184,149,916	n/a	n/a
2012/13	182,445,331	-1,704,585	-0.93%
2013/14	180,255,141	-2,190,190	-1.20%

<u>Estimated adjustment due to appeals (line 35):</u> Estimated at -5.0% of the gross rate yield after reliefs recorded in line 20. This is marginally lower than the -5.3% adjustment previously used by the DCLG in the 2012/13 NNDR1 return. The 2013/14 estimate is approximately equal to the average level of appeals payments recorded in NNDR3 return in the past three years uplifted for changes in the small business rates multiplier as shown in the following table:

NNDR3	Gross Rates Payable (ii) Net Amount in Respect of Previous Years	Uplifted for changes in the Small Business Rates Multiplier
2009/10	-£5,250,200	-£5,866,700
2010/11	-£2,961,799	-£3,356,600
2011/12	-£1,306,624	-£1,415,700
Average		**-£3,546,300**

3. Financial Implications.

3.1 From 1 April 2013, Sefton will retain 49% of the net rate yield (excluding transitional arrangements) as shown on line 36 of the NNDR1. The amount of forecast business rates to be retained in 2013/14 is £32,117,167.

3.2 As part of the Local Government Finance Settlement the Government has calculated Sefton's business rates baseline at £33,378,261 for 2013/14. This is the amount the Government expects the Council to be able to retain as its share of business rates in the year. The NNDR1 return forecasts the Council's actual share of business rates at £32,167,117, leaving a shortfall of £1,261,094.

3.3 The forecast short-fall includes the additional cost of extending the small business rates relief scheme in 2013/14 as announced in the Chancellors Autumn Statement on 5 December 2012. The forecast additional cost included in Sefton's share is £1,171,335. This cost is expected to be funded outside of the rates retention scheme via a Section 31 Grant.

3.4 The revised net budget short-fall in retained business rates is therefore £89,759.

4. New Risks

4.1 The business rates retention scheme introduces a significant level of additional risk into the Council's finances. Business rates income can be volatile and has proved difficult to forecast accurately in previous years. From April 2013 the Council will be exposed to variations in business rates income which are anticipated to come from changes in the level of mandatory reliefs, losses through non-collection, fluctuations in rateable values, and the timing and value of appeals. Each of these areas is discussed below:

4.2 **Mandatory Reliefs**: The criteria for granting mandatory relief is determined by Central Government and set down in regulation. The Council has no control or influence over the level of relief granted. The level of charitable relief has increased significantly since 2010/11. Future increases in mandatory reliefs will reduce the level of income retained by the Council.

4.3 **Non-collection**: The level of business rates arrears increased from £2.109m in March 2008 to £6.777m in March 2012. The difficult economic climate has contributed to the increase in arrears, resulting in a requirement to make a larger provision for non-payment and an increase in the level of write-offs. Future increases in arrears and write-offs will reduce the level of income retained by the Council.

4.4 **Rateable Value**: The gross rateable value of businesses in Sefton reduced by £2.190m (-1.2%) from £182.445m on 31 December 2011 to £180.255m on 30 September 2012. If this level of change was to continue in future years, Sefton's retained business rates would decline by approximately £0.490m per annum.

4.5 **Appeals**: The Valuation Office Agency (VOA) has provided details of the number of appeals outstanding at the end of October 2012, which can be summarised as follows:

Rating List:	Number of Outstanding Appeals	Rateable Value of Properties
2005	74	£7.253m
2010	561	£48.787m

The information provided by VOA does not include any indication of how many of the outstanding appeals might be successful, the value of any potential refund that might be due or the timing of these payments. The NNDR1 return includes a provision for appeals of £3.571m for 2013/14. The actual value of payments due to appeals could potentially be much higher.

5. Conclusion

5.1 The NNDR1 form attached has been completed in line with the relevant guidance notes and represents our best estimate of the business rates yield for 2013/14.

5.2 The completed return has to be approved by 31 January 2013.

6. Recommendations

6.1 Cabinet is recommended to approve the National Non-Domestic Rates Return 1 2013/14 for submission to the Government.