Wards Affected: All Wards

ITEM **6(a)**

MILTON KEYNES COUNCIL

21 FEBRUARY 2018

Report considered by Cabinet – 7 November 2017

COUNCIL TAX BASE AND BUSINESS RATE BASELINE 2018/19

Responsible Cabinet Member:	Councillor Middleton Cabinet member for Resources and Innovation
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Executive Summary 2018/19

Council Tax Base 2018/19

The report sets out; the main assumptions used in calculating the Council Tax Base for 2018/19; confirms the level of funding the Council will pay to town and parish councils for Local Council Tax Reduction and how this funding will be distributed.

It also sets out proposed amendments to the Local Council Tax Reduction Scheme, to retain administrative simplicity and to reflect legislative changes to the Prescribed Council Tax Reduction Regulations and other related welfare benefit changes.

Business Rates Baseline 2018/19

The Local Government Finance Act 2012, requires billing authorities to make calculations, and supply information on their anticipated collectable business rate income for the following year.

The legislation also introduced a new local government funding model, which has been operational since April 2013. This allows for a proportion of a local authority's estimated business rate income to be retained, as part of its Government funding. The retained funding is made up of two elements; the Business Rates Funding Baseline and a proportion of additional income which relates to the growth achieved in the financial year.

The report outlines the key financial assumptions and risks to the Council in estimating future business rate income. The setting of the Business Rates Baseline is delegated to the Council's Section 151 Officer to enable a timely forecast.

1. Recommendations

1.1 That the 2018/19 Tax Base be set at 82,950.17 Band D equivalent properties.

1.2 That the provision for uncollectable amounts of Council Tax for 2018/19 be set at 1.6% producing an expected collection rate of 98.4%.

1.3 That the proposed 2018/19 funding contribution to parish and town councils of £530,000, as set out in section 5 of this report be noted and recommended to Council for approval as part of the final Budget in February 2018.

1.4 That the distribution methodology to be used to allocate funding from Milton Keynes Council to parish and town councils as set out in Annex D be approved.

1.5 That the Cabinet recommends to Council that the Local Council Tax Reduction Scheme, as adopted by the Council on 11 January 2017, be continued for 2018/19, with amendments that reflect changes to related benefits and to the Council Tax Reduction Schemes (Prescribed Requirements) Regulations; retaining the delegation to the Corporate Director of Resources to make technical legislative changes.

1.6 That the Council's current estimate of the 2018/19 Business Rates Baseline be noted, retaining the delegation to the Corporate Director of Resources to finalise this Baseline, based on the latest data for submission to Department for Communities and Local Government in January 2018.

2. Council Tax Base Setting 2018/19

2.1 This section of the report sets out the main assumptions used in calculating the Council Tax Base for 2018/19, the level of Council funding to be distributed to parish and town councils in 2018/19 to offset a proportion of their financial loss as a result of Local Council Tax Reduction Scheme (LCTRS), and the funding distribution between the individual parishes and town councils.

2.2 In accordance with the Local Government Finance Act 1992 and related Statutory Instruments, the Council is obliged to set its Council Tax Base for the forthcoming financial year by 31 January 2018.

2.3 Since April 2013, under the Local Council Tax Reduction Scheme (LCTRS) rather than qualifying council taxpayers receiving a benefit to offset their Council Tax bills, eligible residents in receipt of low incomes now receive a discount. The impact of this change reduces the Tax Base for the Council and all precepting authorities.

2.4 Part of the potential loss created by this Tax Base reduction is offset by Government funding, which forms part of the Council's Revenue Support Grant (RSG) as well as an amount of funding intended to partially offset the impact of the Tax Base reduction for town and parish councils.

2.5 In January 2017, the Council approved the LCTRS for 2017/18. Schedule 4 of the Local Government Finance Act 2012 requires, for each financial year, that each billing authority must consider whether to revise its scheme or to replace it with another scheme. The authority must make any revision to its scheme, or any replacement scheme, no later than 31 January in the financial year preceding that for which the revision or replacement scheme is to have effect.

2.6 This report recommends continuing with the current LCTRS for 2018/19. This would mean the maximum level of Council Tax support for working age claimants would be maintained at 80%. The only changes that would be made are to incorporate legislative amendments to the Prescribed Scheme in respect of Council Tax Reduction and to other related benefits, where certain changes need to be replicated in the LCTRS to retain administrative simplicity and to maintain the status quo in respect of the cost of the Scheme.

2.7 A change to the Working Age Scheme was adopted in January 2014 which allows for the Working Age Scheme to be amended in line with changes to the amounts used in the Prescribed Scheme and the Housing Benefit Regulations, as well as amendments to provide parity with changes made to associated legislation. The approval of these changes has been delegated to the Corporate Director of Resources.

2.8 Any other revisions to the scheme can only be made following consultation with any major precepting authority and such other persons as the authority considers are likely to have an interest in the scheme.

2.9 The changes to the Tax Base as a result of the LCTRS are calculated, based on this recommended policy.

2.10 The setting of a realistic and prudent collection rate for Council Tax is another essential component of the Council's overall budget strategy. If the collection rate set is over-optimistic, this may result in a deficit on the collection fund at the end of 2018/19, which would result in an in-year overspend and a budget correction in the 2019/20 Budget.

2.11 The process and key assumptions to set the Tax Base for 2018/19 are as follows;

- The calculation of the Tax Base for precepting purposes is based on the number of properties, the council tax banding of the properties as at 11 September 2017 and the discounts applicable on 2 October 2017.
- The properties and discounts are then adjusted for estimated new builds and demolitions within the 2017/18 and 2018/19 financial years, taking into consideration the anticipated timing of the new builds and demolitions.
- A review of historic LCTRS claimant trends, in conjunction with an assessment of future risks to inform the 2018/19 projection, which reduces the Tax Base accordingly.
- An estimate is then made for non-collection which reduces the Tax Base further. This is informed by current income collection levels and the anticipated future risks to collection as a result of the economic landscape and national Government policies such as Universal Credit and the wider Welfare Reforms.

2.12 Milton Keynes is a high growth area and the Council Tax Base is therefore expected to grow by 940 Band D equivalent properties within 2018/19 based on our future estimates.

2.13 The amount of Local Council Tax Reductions was lower than anticipated in 2017/18, mainly as a result of a higher than anticipated increase in claimants moving into employment; therefore the LCTRS Band D equivalent property forecast for 2018/19 will be reduced to 9,686 from the 2017/18 forecast of 9,818. This assumes the local economy will continue to improve, meaning fewer people will be entitled to discounts.

2.14 In implementing the LCTRS, we invest in a discretionary fund currently set at £150k to help those council tax payers affected by the change; created and promoted easier ways to pay and worked extensively with the individuals who were affected by the change. As a result, collection rates are better than initially predicted, helping to maintain the overall collection rate at 98.4%.

2.15 Based on prior year and current in-year collection performance in 2017/18; the estimated Council Tax collection rate applied to the Tax Base should remain at 98.4%. This collection rate is still considered to be a prudent estimate and is informed by the potential adverse effect to income collection levels as a result of the introduction and roll out of Universal Credit in Milton Keynes and the Government's wider Welfare Reform agenda.

2.16 All these assumptions result in a proposed Tax Base of 82,950.17 Band D equivalents, which would result in Council Tax income of £110.2m for Milton Keynes Council (based on a 1.99% Council Tax increase and a 3% adult social care precept, which is the current planning assumption).

2.17 The Tax Base calculation (set out at annex A) must be approved by no later than 31 January 2018; but an earlier decision supports key partners in making decisions on their Budget. Annexes B and C analyse the figures at parish level in terms of Band D equivalents and numbers of properties respectively.

2.18 The following table summarises the position:

Table 1: Council Tax Base 2018/19 – Band D equivalents

Total of Band D Equivalents	92,731.56
Provision for Valuation Changes	1,030.00
Net Impact of Local Council Tax Reductions	(9,686.30)
Provision for Non Collection (1.6%)	(1,125.09)
Total Band D equivalent properties	**82,950.17**

3. Funding for Parishes

3.1 The introduction of the LCTRS reduces the Tax Base, and therefore the Council Tax income collected by individual precepting bodies. However, Central Government funding to major preceptors offsets a significant proportion of the impact for this change, although this is reducing each year.

3.2 Additional Government funding, as part of Revenue Support Grant (RSG) is also provided to major precepting authorities on behalf of town and parish councils to offset a proportion of their reduced Tax Base as a result of the scheme. From April 2013 this grant has formed part of the Council's RSG.

3.3 The RSG is a non ring-fenced source of funding that the Council receives from the Government for the provision of statutory functions and local service provision. Over the medium term it is expected that RSG will continue to reduce year on year and will eventually be phased out.

3.4 In the period 2013/14 to 2018/19 Milton Keynes's RSG has reduced from £61m to £11.5m, a reduction of 81%, correspondingly the Council has resolved to reduce the proportion of funding passed to parishes over this same period by 32%, from £0.776m to £0.530m.

3.5 The Council Plan sets out the commitment to maintain support to parishes for 2018/19 at the same level as 2017/18 therefore the funding for parish and town councils will remain at £530k for 2018/19.

3.6 The provisional funding allocations to parish and town councils are illustrated in **Annex D**.

4. Setting the Business Rates Baseline 2018/19

4.1 This section of the report sets out the main assumptions which have informed the estimation of the 2018/19 Business Rate Baseline and how the anticipated Business Rates Baseline informs the overall Council's 2018/19 Budget.

4.2 The Local Government Finance Act 2012 gave local authorities the power to retain a proportion of funds obtained from business rates in their area.

4.3 The changes under the 'Localisation of Business Rates' mean that from April 2013 local authorities retain a share of the income they collect from business rates as funding to meet the cost of service provision.

4.4 The Department for Communities and Local Government (DCLG) guidance indicates that each billing authority should formally set a Business Rate Baseline each year. This baseline will be the authority's estimate of the business rates it forecasts to collect in the following financial year, offset by any reductions such as reliefs and estimated cost of successful rateable value appeals.

4.5 The calculation of the Council's 2018/19 Business Rate Baseline must be formally approved, and then be submitted to DCLG through a statutory return by 31 January 2018.

4.6 This report includes the latest set of Business Rates forecasts, based on the best information available at the present time; however to ensure the Council has the ability to forecast any changes to the estimated Business Rate yield from the date of this report, up to the end of January; the Cabinet agreed in December 2014 that the final decision on setting the annual Business Rates Baseline is delegated to the Council's S151 Officer.

4.7 2017/18 is the first year that business rates will have been revalued since the Local Government finance system changed. At the same time DCLG have introduced a new rateable value appeal system, called ‘Check, Challenge and Appeal’. This new system is still bedding in and has introduced a significant amount of uncertainty into setting the business rates baseline for 2018/19.

4.8 The Milton Keynes Council’s estimated business rate income for 2018/19 is £157m and is calculated as follows:

- The total gross business rate yield which is the rateable value of properties within Milton Keynes, multiplied by the non-domestic rating multiplier.
- Deductions are then made for estimated mandatory and discretionary reliefs and exemptions, based on local intelligence.
- Deductions are also made for estimated losses in collection, based on historical trends and local intelligence and to meet the costs of collection. The calculation for the cost of collection deduction is prescribed by Government.
- Deductions also made for the estimated impact of changes to rateable values through successful appeals, which may not be determined for a number of years.
- Finally an adjustment is made to reflect local intelligence on the estimated impact of anticipated future changes to business activity for the year hence. This has been based on known changes and experience of recent business rate growth.

4.9 The current retention of business rates methodology is complex. 50% of business rates collected by a billing authority is paid to Central Government, with the remaining 50% being held locally. The local element is known as the retained business rates, of which, we are required to pay 1% of the total business rate yield to Buckinghamshire and Milton Keynes Fire Authority.

4.10 The retained business rates are then reduced by a Tariff and a Levy on business rate growth. The tariff payment is made to Central Government in order to fund other authorities where their business rates are disproportionately low. The Tariff and Levy means that the Council is estimated to retain £49.1m of the £157m of business rates forecast (31.3%) to be collected in 2018/19.

4.11 The retained business rates, along with the Revenue Support Grant, together equates to our total Government funding.

4.12 The retained business rates is made up of a Baseline Funding level which reflects the Government estimate of funding for the Council, and an allowance for growth.

4.13 This allowance for growth is based on the actual business rates collected, compared to the Government’s estimate of the amount we will collect, less the levy applied to this growth. It results in a £0.30p return, for every £1 growth of business rates collected by the Council.

4.14 Each year, the Business Rates Funding level, Tariffs and Top-ups are uplifted for inflation.

4.15 Central Government have put measures in place to support local enterprise through the provision of business rate discounts, reliefs and an inflation cap. This has the impact of reducing the overall business rate yield and the cost is reimbursed to local authorities through a Section 31 grant. The Council is anticipating to receive £2.4m of Section 31 grant in 2018/19 to offset the resulting loss of business rate income.

4.16 The anticipated 2018/19 Business Rate Baseline for the Council is £157m, of this value £49.1m is estimated to be retained by the Council as Government funding, which includes £2.4m of business rate reimbursements through a Section 31 grant. We also retain 100% of all Business Rates income relating to renewable energy assessments built post 1 April 2013.

4.17 The Council's estimated retained funding is made up of £44.6m which is the estimated Baseline Funding level for Milton Keynes (central government is yet to confirm this amount for 2018/19), and £4.5m of forecast business rate growth above the baseline, which includes the financial benefit of growth including a number of commercial developments in Magna Park and Eagle Farm.

4.18 Table 2 shows the forecast 2018/19 Business Rate Baseline distributed through DCLG's funding model.

Table 2: Business Rates Baseline Distribution

Anticipated Business Rate Distribution	**2018/19 Value (£m)**
Milton Keynes Council Business Rate Baseline (total business rates collected after deductions)	**(157.3)**
50% Central share paid to Government	*78.7*
1% share paid to Buckinghamshire and Milton Keynes Fire Authority.	*1.6*
Deductions for Tariff paid to Central Government	*28.1*
Deduction for Levy paid to Central Government	*2.3*
Section 31 grant receivable	*(2.4)*
Renewable energy (100% retained)	*(0.2)*
Milton Keynes Council forecast retained Business Rates Funding	**(49.1)**

5 Risks

5.1 The existing scheme has now been in operation for four full financial years. During this time, we have experienced a number of issues which highlight the risks in this funding regime. The major risks are as follows:

- There have been issues with delays to properties being entered onto the Valuation List by the Government's Valuation Officer, which has impacted on the timing of receipts..This makes accurate income forecasts difficult to predict.

- Successful rateable value appeals have caused a major uncertainty in the system nationally; this is particularly evident in Milton Keynes. We currently have just under 1,000 appeals outstanding and current forecasts indicate around 400 will be resolved by the Valuation Office in the current year. Again, this makes it difficult to determine income levels in year and the underlying baseline level of income, as appeals are often backdated for several years.

- In addition, the Valuation Office has experienced substantial issues with the new Check, Challenge and Appeal system. Ratepayers are currently having difficulty in accessing the system. A methodology for informing Local Authorities of the potential cost of any potential reduction has not yet been developed by the Valuation Office. Again, this makes it difficult to determine income levels in year and the underlying baseline level of income.

- There have also been a number of successful appeals addressed at a national level, so a ruling is given which impacts on our local income potentially without us being aware that the case is being considered. The Council works closely with the Valuation Office to understand where these risks may apply in future years.

- Over the last four years, the economy in Milton Keynes has continued to grow, but there is a risk that if the economy starts to decline income would fall. The safety net operates to protect against losses of more than 7.5% from the Business Rates Baseline. Based on current projected income for 2017/18, we could lose £11m of income, before we would receive any support from Government. This change in funding reflects a very different level of risk for local authorities compared to the previous fixed grant regime.

6 The Future Outlook for Business Rates Retention

6.1 The Government had been working with local authorities on changes to Business Rates Retention with effect from 2020/21, However, this has been put on hold, although work is still continuing to update the needs formula underlying the current Business Rates Retention Scheme. It is understood that the work on this may recommence in the near future.

6.2 The main principle is that local government as a whole will retain 100% of all business rates collected and will take on additional roles and responsibilities to offset the additional funding that would be generated. This however, does not mean that each local authority will keep all the income retained locally.

There may still be a system of redistribution and some top-slicing to enable a safety net function to operate. It is too early to determine what the likely impact of these changes will mean for Milton Keynes.

6.3 At a national level, the Government has revalued business properties from 1 April 2017 which has resulted in some properties paying more in business rates and some less in Business Rates than they had prior to the revaluation.

6.4 As with previous Business Rates revaluations it is expected that a significant percentage of ratepayers (both winners and losers) will appeal their Business Rates. This will be a potential cost to MKC which could take over 5 years to materilse. This has been idenfitied as a risk to MKC and is a cost through the provision for appeals.

6.5 When the Government introduced the Business Rates Retention Scheme it signalled that it would adjust each authority's tariff or top up tariff in our case) following a revaluation to ensure that retained income would the same after revaluation as before. This adjustment to the tariff for Milton Keynes has been reflected in the baseline calculation in Table 2.

7 Annexes

Annex A - Calculation of Council Tax Base 2018/19.

Annex B - Council Tax Base 2018/19 by Parish and Town Council.

Annex C - Council Tax Base before Discounts and Exemptions.

Annex D - Parish and Town Council Funding Allocations.

8 Implications

8.1 Policy

None

8.2 Resources and Risk

No	Capital	Yes	Revenue	No	Accommodation
No	IT	Yes	Medium Term Plan	No	Asset Management

8.3 Legal

Local Government Finance Act 1992, Local Government Finance Act 2003

Local Government Finance Act 2012, Non-Domestic Rating (Levy and Safety Net) Regulations 2013.

Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012.

8.4 Other Implications

No	Equalities/ Diversity	Yes	Sustainability	No	Human Rights
No	E-Government	Yes	Stakeholders	No	Crime and Disorder
No	Carbon Management				

Background Papers: DCLG Council Tax Base 1 Form

DCLG National Non Domestic Rate 1 Form