

Wards Affected:

All Wards

ITEM 4(a)**MILTON KEYNES COUNCIL****18 FEBRUARY 2015**

Report Considered by Cabinet – 8 December 2014

COUNCIL TAX BASE AND BUSINESS RATE BASELINE 2015/16

Responsible Cabinet Member: Councillor Middleton (Resources, Efficiency and Growth)

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Executive Summary**Council Tax Base 2015/16**

From April 2013, the change from Council Tax Benefit to Local Council Tax Reduction means rather than receiving a benefit to offset the cost of Council Tax, eligible residents now receive a discount, this reduces the Tax Base for all precepting authorities.

Part of the potential loss created by this Tax Base reduction is offset to an extent by national Government funding, which forms part of the Council's Revenue Support Grant (RSG). The Council also receives some funding (which is part of RSG) to partially compensate for the reduction in town and parish council's Tax Base.

The report sets out; the main assumptions used in calculating the Council Tax Base for 2015/16; confirms the level of funding the Council will pay to town and parish councils and recommends how this funding should be distributed.

Business Rates Baseline 2015/16

The Local Government Finance Act 2012, requires 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; and recommends that 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 2015/16 Tax Base be set at 78,492.99 Band D equivalent properties.
- 1.2 That the provision for uncollectable amounts of Council Tax for 2015/16 be set at 1.92% producing an expected collection rate of 98.08%.
- 1.3 That the proposed 2015/16 funding contribution to parish and town councils of £595,000, as set out in section 5 of this report be noted and the Council recommends to approve this payment as part of the final Budget.
- 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 Council's current estimate of the 2015/16 Business Rates Baseline be noted.
- 1.6 That the annual Business Rate Baseline setting decision be delegated to the Council's Section 151 Officer, for the reasons set out in paragraphs 11.2 – 11.3.

COUNCIL TAX BASE 2015/16

2. **Purpose**

- 2.1 This section of the report sets out the main assumptions used in calculating the Council Tax Base for 2015/16.
- 2.2 This report also recommends the level of Council funding to be distributed to parish and town councils in 2015/16 (consistent with the draft Budget elsewhere on this agenda), to offset a proportion of their financial loss as a result of Local Council Tax Reduction Scheme (LCTRS). This report also recommends how the funding will be distributed between the individual parishes and town councils.

3. **Background**

- 3.1 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 2015.
- 3.2 From April 2013, the change from Council Tax Benefit to Local Council Tax Reduction means rather than receiving a benefit to offset the cost of Council Tax, eligible residents now receive a discount, this reduces the Tax Base for all precepting authorities.
- 3.3 Part of the potential loss created by this Tax Base reduction is offset by Government funding, which forms part of the Council's RSG. The Council also receives an amount of funding intended to partially offset the impact of the Tax Base reduction for town and parish councils.

- 3.4 In November 2014, the Cabinet agreed that the LCTRS for 2015/16 be recommended to full Council for approval in January 2014. The 2015/16 scheme is largely unchanged from the current 2014/15 scheme, as the maximum level of Council Tax support for working age claimants was agreed to be maintained at 80%.
- 3.5 The changes to the Tax Base as a result of the LCTRS are calculated, based on this recommended policy.

4. **Council Tax Base Setting**

- 4.1 The setting of a realistic and prudent collection rate for Council Tax is an 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 2015/16, which would result in an in-year overspend and a budget correction in the 2016/17 Budget. The process and key assumptions to set a Tax Base for 2015/16 are as follows;
- The calculation of the Tax Base for precepting purposes is based on the number of properties at 8 September 2014 and the discounts applicable on 6 October 2014.
 - The properties and discounts are then increased for estimated new builds within the 2014/15 and 2015/16 financial years.
 - An estimate is then made for non-collection which reduces the Tax Base.
 - A recent review of the Council Tax Base for 2014/15 has shown that while housing growth was lower than anticipated (an increase of 1,000 Band D equivalent properties rather than 1,606); the amount of Local Council Tax Reductions was lower than anticipated, mainly as a result of a higher than anticipated increase in claimants moving into employment. The assumptions therefore reduce the estimated net impact of the LCTRS to a net reduction of 10,609 Band D equivalents.
- 4.2 In implementing the LCTRS, Milton Keynes Council invested in a discretionary fund; created and promoted easier ways to pay and worked extensively with the individuals who were affected by the change. As a result, collection rates were better than initially predicted, helping to maintain the overall collection rate.
- 4.3 Based on prior year and current in-year performance; the estimated Council Tax collection rate applied to the Tax Base is 98.08% which is a 0.21% improvement from 2014/15 rate of 97.87% this is still a prudent estimate which reflects the uncertainties of the national Welfare Reform agenda and the anticipated impact of the Council's LCTRS.
- 4.4 These assumptions result in a proposed Tax Base of 78,492.99 Band D equivalents, which would result in Council Tax income of £89.3m for Milton Keynes Council (based on a 0% Council Tax increase as proposed in the 2015/16 draft Revenue Budget).

- 4.5 The Tax Base calculation (set out at annex A) must be approved by 31 January 2015; 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.
- 4.6 The following table summarises the position:

Table 1: Tax Base 2015/16 – Band D equivalents

| | |
|--|------------------|
| Total of Band D Equivalents | 89,606.91 |
| Provision for Valuation Change | 760.00 |
| Net Impact of Local Council Tax Reductions | (10,608.78) |
| Provision for Non Collection | (1,265.14) |
| Total Band D equivalent properties | 78,492.99 |

5. Funding for Parishes

- 5.1 The introduction of the LCTRS reduces the Tax Base, and therefore the Council Tax income collected by individual precepting bodies. However, national Government funding to major preceptors offsets a significant proportion of the impact for this change (although this reducing each year).
- 5.2 Additional Government funding (a grant allocation in 2013/14) 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.
- 5.3 In 2013/14, Milton Keynes Council was given a grant allocation of £676,000 on behalf of town and parish councils. In addition to this grant, as a result of the late confirmation from Government on the impact of the LCTRS scheme on parishes, Milton Keynes Council added a further £100,000 contribution to parish and town councils to offset more of the potential impact.
- 5.4 From April 2014, the Government grant of £676,000 formed part of the Council's Revenue Support Grant (RSG). 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.
- 5.5 Due to the Government's national deficit reduction strategy, the Council's RSG is estimated to continue to reduce by up to 15% each year, for the foreseeable future.
- 5.6 To ensure financial sustainability, the Council needs to reduce costs accordingly. As such, the Council's 2014/15 budget removed the £100,000 funding top-up to parish and town councils, although a £75,000 one-off funding contribution was approved for 2014/15. However, the 2014/15 Budget also proposed future year's reductions to the original grant allocation of £676,000, in line with the Council's estimated annual Government funding reductions, as set out in Table 2.

Table 2: Parish and Town Council funding

| | 2013/14 £m | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 £m | 2018/19 £m |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Parish and town council funding | 0.676 | 0.676 | 0.676 | 0.595 | 0.547 | 0.492 |
| MKC funding top-up | 0.100 | 0.100 | 0.000 | 0.000 | 0.000 | 0.000 |
| Reductions to funding | 0.000 | (0.100) | (0.081) | (0.048) | (0.055) | (0.059) |
| MKC funding top-up (one-off) | 0.000 | 0.075 | 0.000 | 0.000 | 0.000 | 0.000 |
| Total parish and town council funding for the year | 0.776 | 0.751 | 0.595 | 0.547 | 0.492 | 0.433 |

5.7 The financial impact of the Local Council Tax Reduction Scheme to town and parish councils (before Council funding) is estimated to result in an overall loss of £881,000 for 2015/16, based on 2014/15 precept per Band D levels; this reflects that the parishes with the majority of discounts are also those who raise a higher than average parish precept.

5.8 After the Council has transferred £595,000 of funding, this will result in a total loss to town and parish councils of £286,000 (less than 5% of the total town and parish precept income) for 2015/16.

5.9 However, this estimated loss does not take into account the potential additional income which could be raised due to the increase in estimated property numbers from 2014/15. Based on the 2014/15 average precept per Band D equivalent the increase in the Tax Base as a result in growth could generate an additional £111,000 parish precept income in 2015/16, reducing the overall loss to £175,000 (less than 3% of total town and parish precept income).

Funding allocation methodology

5.10 Milton Keynes Council consulted on the distribution method of parish funding and the parish precept reporting pro-forma (the form which parishes complete to advise the Council of their precept requirement).

5.11 The result of this consultation concluded that the most favourable approach to distribute the funding was in a way which allocates the overall precept loss evenly between each parish, based on an equal percentage loss of income (when the precept income is combined with the offsetting grant).

5.12 The provisional funding allocations to parish and town councils are illustrated in annex D. The final allocations will be confirmed once the level of funding for town and parish councils has been allocated as part of the 2015/16 Budget decision in February 2015. However, town and parish councils will need to set their precepts before Milton Keynes Council makes this decision and will therefore use this provisional funding allocation as the basis to make their decision.

BUSINESS RATES BASELINE 2015/16

6. Purpose

- 6.1 This section of the report sets out the main assumptions which have informed the estimation of the 2015/16 Business Rate Baseline, how the anticipated Business Rates Baseline informs the Council's 2015/16 Budget and the rationale for recommending the final decision on setting the Business Rates Baseline to be delegated to the Council's S151 Officer.

7. Background

- 7.1 The Local Government Finance Act 2012 gave local authorities the power to retain a proportion of funds obtained from business rates in their area.
- 7.2 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. Before this date, all business rates collected in England were paid to national Government from the billing authorities, and a proportion was then paid back to each authority as Formula Grant.
- 7.3 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 appeals.
- 7.4 The calculation of the Council's 2015/16 Business Rate Baseline must be formally approved by the Council, and then be submitted to DCLG through a statutory return by 31st January 2015.

8. Setting the Business Rates Baseline

- 8.1 The Milton Keynes Council's estimated business rate income for 2015/16 is £153.12m 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 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 new notified 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. This has been based on known changes and experience of recent business rate growth.

9. **Local Government Funding Model**

- 9.1 As a result of the Local Government Finance Act 2012 legislation, the funding model for local government changed from April 2013.
- 9.2 The retention of business rates methodology is complex. It means that 50% of business rates collected by a billing authority from April 2013, will be paid to Central Government, with the remaining 50% being held locally. The local element is known as the retained business rates, of which, Milton Keynes Council is required to pay 1% of the total retained business rates to Buckinghamshire and Milton Keynes Fire Authority.
- 9.3 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 will retain £45.3m of the £153.1m of business rates forecast to be collected in 2015/16.
- 9.4 The retained business rates, along with the Revenue Support Grant, forms Milton Keynes Council's Government funding.
- 9.5 The retained business rates are made up of a Baseline Funding level which reflects the Government estimate of funding for Milton Keynes Council, and an allowance for growth.
- 9.6 This allowance for growth is based on the actual business rates collected, compared to the Government's estimate of the amount Milton Keynes Council 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.
- 9.7 Each year, the Business Rates Funding level, Tariffs and Top-ups are uplifted for inflation.
- 9.8 Central Government measures to support local enterprise through the provision of business rate discounts, reliefs and an inflation cap, which reduce the overall business rate yield, are reimbursed to local authorities through a S31 grant. The Council is anticipating to receive £1.7m of S31 grant in 2014/15 to offset the resulting loss of business rate income. The Government has not announced its intention to continue this arrangement in 2015/16.
- 9.9 Lastly, the funding model will be reset in 2020, which does present a risk that all funding generated as a result of additional growth is lost.

10. **Estimated Business Rate Distribution**

- 10.1 The anticipated 2015/16 Business Rate Baseline for Milton Keynes Council is £153.1m, of this value £45.3m is estimated to be retained by the Council as Government funding.

- 10.2 The Council's estimated retained funding is made up of £42.5m which is the Baseline Funding level for Milton Keynes, and £2.8m of forecast business rate growth above the baseline, including a number of new commercial developments anticipated in Magna Park and Eagle Farm.
- 10.3 Table 3 shows the forecast 2015/16 Business Rate Baseline distributed through DCLG's funding model.

Table 3: Business Rates Baseline Distribution

| Anticipated Business Rate Distribution | 2015/16 Value (£m) |
|--|---------------------------|
| Milton Keynes Council Business Rate Baseline (Total business rates collected after deductions) | (153.12) |
| 50% Central Share to Government | 76.56 |
| 2% Share to Buckinghamshire and Milton Keynes Fire Authority. | 1.53 |
| Deductions for Tariff paid to Central Government | 27.91 |
| Deduction for Levy paid to Central Government | 1.82 |
| Milton Keynes Council forecast retained Business Rates | (45.30) |
| <u>Of which:</u> | |
| - Business Rates Baseline Funding Level | (42.53) |
| - Business Rate Growth | (2.77) |

11. Risks

- 11.1 The 2014/15 monitoring of business rates income indicates that the Council is likely to achieve its current year retained business rate income forecast of £42.2m; however there are a number of significant risks associated with the business rate retention scheme, such as;
- Reduction in collectable business rate income due to an unpredictable increase in exemptions and reliefs due to different property usage and successful business rate appeals. The risk of a reduction in business rate income remains with the local authority, each authority can lose up to 7.5% of their Baseline Funding level, which equates to a £6m reduction of business rate income from the current 2015/16 forecast, before a safety net applies.
 - Future business rate baseline resets which will assume the growth achieved to date within a revised funding baseline.

- An increase in the cost of successful appeals above the estimated levels, which will need to be met by the authority. The Council works with external partners, and uses local intelligence to inform the estimated value of appeals in Milton Keynes.
- A decrease in the level of collected business rates due to uncollectable debts as a result of worsening economic conditions.

11.2 The retention of business rates presents new financial challenges to local authorities and particularly for Milton Keynes Council, due to the significance of the value, and the volatility of the collectable business rates yield, combined with changing Government policy and the lack of historic data to inform future decision making. The Council is currently monitoring performance against the associated financial risks and potential opportunities based on the latest available local and national information.

11.3 DCLG expect local authorities to provide them with the most up to date forecast of their 2015/16 Business Rate Baseline by 31 January each year. Therefore to enable the Council to forecast any changes to the estimated business rate yield from the date of the Council Tax Base and Business Rates Baseline Report, up to the end of January; this report recommends that the final decision on setting the annual Business Rates Baseline is delegated to the Council's S151 Officer.

12. Annexes

Annex A - Calculation of Council Tax Base 2015/16.

Annex B - Council Tax Base 2015/16 by Parish and Town Council.

Annex C - Council Tax Base Before Discounts and Exemptions.

Annex D - Parish and Town Council Funding Allocations.

13. Implications

13.1 Policy

13.2 Resources and Risk

| | | | | | |
|--|---------|-----|------------------|--|------------------|
| | Capital | Yes | Revenue | | Accommodation |
| | IT | Yes | Medium Term Plan | | Asset Management |

13.3 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.

13.4 Other Implications

| | | | | | |
|--|--------------------------|-----|----------------|--|-----------------------|
| | Equalities/ Diversity | | Sustainability | | Human Rights |
| | E-Government | Yes | Stakeholders | | Crime and Disorder |
| | Carbon Management | | | | |

Background Papers:

Milton Keynes Council Parish and Town Council Funding Consultation Responses

DCLG Council Tax Base 1 Form

DCLG National Non Domestic Form