Wards Affected: All Wards

ITEM **4(a)(i)**

MILTON KEYNES COUNCIL

19 FEBRUARY 2014

Report Considered by Cabinet – 18 December 2013

COUNCIL TAX BASE AND BUSINESS RATE BASELINE 2014/15

Author(s) Tim Hannam, (Corporate Director Resources) Tel: 01908 252756
Stephen Fitzgerald (Interim Head of Finance) Tel: 01908 252079

Executive Summary

Council Tax Base 2014/15

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 Government funding, which forms part of the Councils Revenue Support Grant. This is then distributed to town and parish councils to offset a proportion of their financial losses.

The report sets out the main assumptions used in calculating the Council Tax Base for 2014/15, confirms the level of Council funding available to town and parish councils and recommends how this funding can be distributed.

Business Rates Baseline 2014/15

Under paragraph 40 of schedule 1 to the Local Government Finance Act 2012, the Government 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 an authorities estimated business rate income for the following year to be retained, and forms 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 Department for Communities and Local Government (DCLG) guidance on these changes indicates member approval should be obtained for the total amount of business rates which are estimated to be collected; this is known as the Business Rates Baseline.

The report outlines the key assumptions used to estimate the 2014/15 Business Rates Baseline, how this informs the Council's 2014/15 Budget and the associated risks to the Council, as a result of the funding methodology.

1. **Recommendations**

1.1 That the 2014/15 Tax Base be set at 76,261.84 Band D equivalent properties.

1.2 That the provision for uncollectable amounts of Council Tax for 2014/15 be set at 2.13% producing an expected collection rate of 97.87%.

1.3 That it be noted that the Council's 2014/15 funding contribution to parish and town councils of £676,000 is in line with Government grant funding, as set out in section 5 of this report.

1.4 That the Council be recommended to approve the funding distribution from Milton Keynes Council to parish and town councils, as set out in Annex E. *(Revised version of Annex E attached to amending report at Item 4[b][ii]), at its meeting on 19 February 2014.)*

1.5 That the 2014/15 Business Rate Baseline be set at £142,780,000.

Council Tax Base 2014/15

2. **Purpose**

2.1 This section of the report sets out the main assumptions used in calculating the Council Tax Base for 2014/15.

2.2 This report also confirms the overall level of Council funding available to parish and town councils in 2014/15, which is used to offset to an extent a proportion of their financial loss as a result of Local Council Tax Reduction Scheme, and recommends how the funding can 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 2014.

3.2 The Local Government Act 2003 amended the Local Government Finance Act 1992, and from 2004/05 a full Council meeting is no longer required to adopt the Council Tax Base that is used when setting Council Taxes. It was approved at full Council on 13th January 2004 that the Cabinet would set the Council's Tax Base in the future.

3.3 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.

3.4 Part of the potential loss created by this Tax Base reduction is offset to an extent by Government funding, which forms part of the Councils Revenue Support Grant. This is then distributed to town and parish councils to offset a proportion of their financial losses.

3.5 The Local Council Tax Reduction Scheme (LCTRS) for Milton Keynes was approved by full Council on 12 December 2012. The changes to the Tax Base as a result of the Local Council Tax Reduction Scheme are calculated, based on this policy.

4. Council Tax Base Setting

4.1 The proposed Tax Base of 76,261.84 Band D equivalents would result in Council Tax income of £86.79m for Milton Keynes Council based on the 0% proposed Council Tax increase in the 2014/15 Draft Revenue Budget.

4.2 The calculation of the Tax Base for parish purposes is based on the number of properties at 9th September 2013 and the discounts applicable on 7th October 2013. These are then increased for estimated new builds within the 2013/14 and 2014/15 financial years and a deduction for estimated non-collection. The net impact of the Local Council Tax Reduction Scheme reduces the Tax Base by 11,170 Band D equivalents.

4.3 The Tax Base calculation set out at Annex A must be approved by 31st January 2014. Annexes B and C attached, analyse the figures at parish level in terms of Band D equivalents and numbers of properties respectively.

4.4 The setting of a realistic and prudent collection rate for Council Tax in 2014/15 is an essential component of the 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 2014/15, which would result in an in-year overspend and a budget correction in the 2015/16 Budget. This would impact adversely on the overall budget strategy.

4.5 Based on current performance the estimated Council Tax collection rate remains at 97.87%, this is a prudent estimate which reflects the uncertainties of the national welfare reform agenda and the anticipated impact of the councils Local Council Tax Reduction Scheme.

4.6 The following table summarises the position:

Table 1: Tax Base 2014/15 – Band D equivalents

Total of Band D Equivalents	88,083.10
Provision for Valuation Change	590.00
Provision for Non Collection	(1,241.42)
Total Band D equivalent properties - before LCTRS Scheme	**87,431.68**
Impact of Local Council Tax Reductions	(10,643.84)
Provision for Non Collection	(526.00)
Total Band D equivalent properties - with LCTRS Scheme	**76,261.84**

5. Funding for Parishes

5.1 As set out in Table 1, the introduction of the Local Council Tax Reduction Scheme reduces the Tax Base, and therefore the Council Tax income collected by individual precepting bodies. However, Government funding to major preceptors offsets approximately 90% of the impact for this change.

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.

5.4 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.

5.5 From April 2014, the Government grant of £676,000 forms 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.

5.6 Due to the Governments national deficit reduction strategy, the Council's RSG is anticipated to significantly reduce from the level received in 2013/14. Overall, the Council is estimating Government funding reductions of 10.1% (£10.5m) from 2013/14, with additional future reductions continuing each year after.

5.7 In light of these significant funding reductions, the Council needs to reduce costs accordingly and deliver savings in excess of £15m in 2014/15, as set out in the Council's Draft Budget, and as such, is proposing to cease providing the £100,000 funding top-up to parish and town councils in 2014/15.

5.8 In addition, the Council is proposing future year's reductions to the original grant allocation of £676,000, in line with the councils overall anticipated Government funding reductions, as set out in the table below.

Table 2: Parish and town council funding

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Parish and town council funding	*0.676*	0.676	0.676	0.615	0.560
MKC funding top-up	*0.100*	0.100	0.000	0.000	0.000
Reductions to funding	*0.000*	(0.100)	(0.061)	(0.055)	(0.049)
Total parish and town council funding for the year	***0.776***	**0.676**	**0.615**	**0.560**	**0.511**

5.9 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 £837,000 for 2014/15, based on 2013/14 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.

5.10 After the Council has transferred £676,000 of funding, this will result in a total loss to town and parish councils of £161,000 (less than 3% of the precept income) for 2014/15.

5.11 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 2013/14. Based on the 2013/14 average precept per Band D this increased Tax Base could generate an additional £75,000 parish precept income in 2014/15.

Funding allocation methodology

5.12 Milton Keynes Council consulted on the distribution of parish funding in 2014/15 and the parish precept reporting pro-forma (the form which parishes complete to advise the Council of their precept requirement). Annex D summarises the responses received.

5.13 The consultation ran from 1 June 2013 to 16 August 2013 and proposed to base the distribution of funding in the same way as the 2013/14 allocation. This approach means parish funding would be distributed in a way which allocates the overall precept loss evenly between each parish, based on an equal percentage loss of income.

5.14 Of the twenty one responses received to this funding distribution question, nineteen respondents supported this grant distribution methodology, and as such this is the approach the Council is recommending to take.

5.15 The provisional funding allocations to parish and town councils are illustrated in Annex E. The final allocations will need to be approved as part of the 2014/15 Budget in February 2014.

Business Rates Baseline 2014/15

6. Purpose

6.1 This section of the report sets out in line with the requirements of the Local Government Finance Act 2012, the main assumptions which have informed the estimation of the 2014/15 Business Rate Baseline and how the anticipated Business Rates Baseline informs the Council's 2014/15 Budget.

7. Background

7.1 The Local Government Finance Act 2012 is the driving force behind the Government's localism agenda, which received Royal assent on 31st October 2012. It amended the 1988 Local Government Finance Act to give 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. Previous to this date, all business rates collected in England were paid to Central 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 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, net of any reductions such as reliefs and estimated cost of appeals.

7.4 Milton Keynes Council 2013/14 Business Rates Baseline was approved as a delegated decision in January 2013 by the Cabinet Member of Finance and then reported to DCLG, through a statutory return.

7.5 The calculation of the Council’s 2014/15 Business Rate Baseline must be approved by Cabinet, and then submitted to DCLG through a statutory return by 31st January 2014.

8. Setting the Business Rates Baseline

8.1 The Milton Keynes Council’s estimated business rate income for 2014/15 is £142.78m and is calculated as follows:

- The total gross business rate yield which is the rateable value of properties within Milton Keynes, multiplied by the small business non-domestic rating multiplier is determined.
- 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 DCLG produced a set of regulations (The Non-Domestic Rating (Rates Retention) Regulations 2013), in which it is proposed 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.

9.3 Milton Keynes Council is required to pay 2% of the total retained business rates to Buckinghamshire and Milton Keynes Fire Authority.

9.4 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.

9.5 The retained business rates, along with the Revenue Support Grant, forms Milton Keynes Council Government funding. The retained business rates are made up of a baseline funding amount (the Business Rates Funding Baseline), which reflects the Government estimate of funding for Milton Keynes Council and an allowance for growth. 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.

9.6 Each year, the Business Rates Funding Amount, tariffs and top-ups are increased by the retail Price Index (RPI).

9.7 Lastly, after 8 years, the funding model will be reset, 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 2014/15 Business Rates Baseline for Milton Keynes Council is £142.78m, of this value £42.24m is retained by the Council as Government Funding.

10.2 This is an overall increase of on-going Council resources of £1.64m from 2013/14, of which £1.32m relates to a 3.26% RPI increase to the councils retained business rates rateable value and a further £0.32m relating to local business rates growth, this means a £0.30p return for every £1 growth of business rates collected.

10.3 In terms of medium term financial planning, the Council has prudently estimated 2% annual increases in the levels of business rates to be retained. These assumptions will be closely monitored and updated if appropriate.

10.4 Table 3 shows the forecast 2014/15 Business Rate Baseline distributed through the funding model, compared to the estimated Business Rate Baseline distribution for 2013/14 reported to DCLG in January 2013;

Table 3: Business Rates Baseline Distribution

Anticipated Business Rate Distribution	***2013/14 Value (£m)***	**2014/15 Value (£m)**
Milton Keynes Council Business Rate Baseline (Total business rates collected after deductions)	*138.60*	**142.78**
50% Central Share to Government	*(69.30)*	**(71.39)**
2% Share to Buckinghamshire and Milton Keynes Fire Authority.	*(1.39)*	**(1.43)**
Deductions for Tariff and Levy paid to Central Government	*(26.91)*	**(27.72)**
Milton Keynes Council Total estimated retained Business Rates	*41.00*	**42.24**
Estimated retained business rate income due to growth	*(0.40)*	**(0.32)**
Milton Keynes Council estimated retained Business Rates used as base Budget Government Funding	**40.60*	**42.24**

*Note 1: The estimated 2013/14 business rate income due to growth was treated as one-off resource and not built into on-going resources.

Treatment of business rate growth

10.5 As a matter of financial prudence, in 2013/14 the estimated business rate income of £0.4m relating to business rate growth was treated as one-off resources and not built into on-going resources as this was the first year of the Business Rates Retention scheme.

10.6 The latest monitoring of the current years business rate income suggests that the Council is on target for retaining £41m in year. Therefore there is sufficient confidence that the £0.32m of business rate growth estimated for 2014/15 will be achievable, therefore this is treated as on-going resources in the Council's 2014/15 Budget.

11. Risks

11.1 Although the 2013/14 monitoring of business rates indicates that the Council is likely to achieve the Business Rates baseline of £138.60m, 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 business rate funding (£3.0m) before a safety net applies.

- An increase in the cost of successful appeals above the estimated levels. This will need to be met by the authority, these appeals may relate to a number of financial years. The Council has used national statistics as a basis to inform the estimated value of appeals in Milton Keynes.

- Future business rate baseline resets which will assume the growth achieved to date within a revised funding baseline.

- A decrease in the level of collected business rates due to uncollectable debts as a result of worsening economic conditions.

- Central Government applying an inflationary cap to future years business rates, which are currently annually increased by RPI.

11.2 The retention of business rates presents new financial challenges to local authorities due to the lack of historic data and operational uncertainties.

11.3 The Council is currently monitoring performance against the associated financial risks and potential opportunities based on the latest available local and national information. Work is also on-going to develop a more sophisticated monitoring system, which over a period of time, combined with additional information that is anticipated from partner organisations will improve the quality of the Council's management information.

12. Implications

12.1 Policy

12.2 Resources and Risk

	Capital	Yes	Revenue		Accommodation
	IT	Yes	Medium Term Plan		Asset Management

12.3 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.

12.4 Other Implications

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

Background Papers: None