Wards Affected:
All Wards

ITEM **4(b)**

MILTON KEYNES COUNCIL

11 JANUARY 2017

Report concidered by Cabinet – 8 November 2016

COUNCIL TAX BASE AND BUSINESS RATE BASELINE 2017/18

Responsible Cabinet Member:	Councillor Rob Middleton (Resources and Innovation)
Report Sponsor:	Tim Hannam, Corporate Director Resources Tel: 01908 252756
Author and Contact:	Nicole Jones, Service Director Finance and Resources Tel: 01908 252079.

Executive Summary 2017/18

Council Tax Base 2017/18

The report sets out; the main assumptions used in calculating the Council Tax Base for 2017/18; 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 2017/18

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. 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 2017/18 Tax Base be set at 81,878.87 Band D equivalent properties.

1.2 That the provision for uncollectable amounts of Council Tax for 2017/18 be set at 1.6% producing an expected collection rate of 98.4%.

1.3 That the proposal to charge the Empty Homes Premium be approved.

1.4 That the proposed approach to the application of Council Tax discounts be approved.

1.5 That the proposed 2017/18 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.

1.6 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.

1.7 That the Cabinet recommends to Council that the Local Council Tax Reduction Scheme, as adopted by the Council on 13 January 2016, be continued for 2017/18, 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.

1.8 That the Council's current estimate of the 2017/18 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.

COUNCIL TAX BASE 2017/18

2. Purpose

2.1 This section of the report sets out the main assumptions used in calculating the Council Tax Base for 2017/18, the level of Council funding to be distributed to parish and town councils in 2017/18 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.

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 2017.

Local Council Tax Reduction Scheme (LCTRS)

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 as well as an amount of funding intended to partially offset the impact of the Tax Base reduction for town and parish councils.

3.4 In January 2016, the Council approved the LCTRS for 2016/17. 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.

3.5 This report recommends continuing with the current LCTRS for 2017/18. 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.

3.6 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.

3.7 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.

3.8 Details of the proposed amendments are provided at **Annex E**.

3.9 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 2017/18, which would result in an in-year overspend and a budget correction in the 2018/19 Budget. The process and key assumptions to set the Tax Base for 2017/18 are as follows;

- The calculation of the Tax Base for precepting purposes is based on the number of properties at 12 September 2016 and the discounts applicable on 3 October 2016.
- The properties and discounts are then increased for estimated new builds within the 2016/17 and 2017/18 financial years, taking into consideration the anticipated timing of the new builds.
- A review of historic LCTRS claimant trends, in conjunction with an assessment of future risks to inform the 2017/18 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.

4.2 Milton Keynes is a high growth area the Council Tax Base is therefore expected to grow by 1,229 Band D equivalents within 2017/18.

4.3 The amount of Local Council Tax Reductions was lower than anticipated this year, mainly as a result of a higher than anticipated increase in claimants moving into employment; therefore the LCTRS Band D equivalent forecast for 2017/18 will be reduced to 9,818 from the current year forecast of 10,107. This assumes the local economy will continue to improve, meaning fewer people will be entitled to discounts.

4.4 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.

4.5 Based on prior year and current in-year performance; the estimated Council Tax collection rate applied to the Tax Base remains at is 98.4%. The collection rate is still a prudent estimate and is informed by the potential adverse effect to income collection levels as a result of the introduction of Universal Credit in Milton Keynes and the wider Welfare Reform agenda.

Empty Homes Premium

4.6 Prior to 1 April 2013 billing authorities could charge up to a maximum of 100% council tax on dwellings that have been empty for more than two years. From April 2013 Section 12 of the Local Government Finance Act 2012 amended Section 11B of the Local Government Finance Act 1992 to allow local authorities in England to set a council tax rate for long-term empty properties of up to 150% of the normal liability. A long-term empty property must have been unoccupied and substantially unfurnished for at least two years. This is known as the Empty Homes Premium.

4.7 Guidance was issued by the Government in May 2013 which included a wish for any property genuinely for sale or rent not to be subject to the premium.

4.8 There are currently 148 properties which could be liable for the premium. Based on current Council Tax levels the additional income to the Collection Fund would be £96k. Milton Keynes share of this income is approximately £80k. However, it should be noted that the premium on 17 of the properties is currently liable to be paid by the Council at a cost of £10k therefore the net benefit to the Council is £70k.

4.9 There is a risk that the work involved in administering the empty homes premium will not justify the potential returns. Additional checks will be necessary to establish whether or not the exemption criteria are met and to establish which property is genuinely for sale or rent. However, if the charging of the premium is approved and it succeeds in its ultimate aim of returning long term empty property into domestic use, not only will the housing supply be increased but also the Council's entitlement to New Homes Bonus, albeit the future of the scheme has yet to be confirmed.

Review of Discounts

4.10 It is proposed that a wholesale review of the application of the single person and other discounts criteria is undertaken to maximise Council Tax income. The service will take a more robust approach to ensure that the discounts applied meet the necessary criteria. This is anticipated to generate an additional £140k to the Collection Fund in 2017/18 of which Milton Keynes share is approximately £120k.

4.11 These assumptions result in a proposed Tax Base of 81,878.87 Band D equivalents, which would result in Council Tax income of £102.6m for Milton Keynes Council (based on a 3.95% Council Tax increase, including 2% adult social care precept, which is the current planning assumption).

4.12 The Tax Base calculation (set out at Annex A) must be approved by 31 January 2017; 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.

4.13 The following table summarises the position:

Table 1: Tax Base 2017/18 – Band D equivalents

Total of Band D Equivalents	91,691.49
Provision for Valuation Change	960.00
Review of Discounts & Empty Homes Premium	156.86
Net Impact of Local Council Tax Reductions	(9,817.64)
Provision for Non Collection	(1,111.82)
Total Band D equivalent properties	**81,878.87**

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, central Government funding to major preceptors offsets a significant proportion of the impact for this change (although this is reducing each year).

5.2 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 2014 this grant has formed part of the Council's RSG.

5.3 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 as funding moves to the new Business Rates Retention scheme from 2020/21.

5.4 However, the Council Plan sets out the commitment to maintain support to parishes and therefore for 2017/18 the funding for parish and town councils will remain at £530k.

5.5 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 £873k for 2017/18, based on 2016/17 precept per Band D equivalent levels; this reflects that the parishes with the majority of discounts are also those who raise a higher than average parish precept.

5.6 After the Council has transferred £530k of funding, this will result in a total loss to town and parish councils of £343k (less than 6% of the total town and parish precept income) for 2017/18.

5.7 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 2016/17. Based on the 2016/17 average precept per Band D equivalent the increase in the Tax Base as a result of housing growth could generate an additional £89k parish precept income in 2017/18 reducing the overall loss to £254k (less than 5% of total town and parish precept income).

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

<u>BUSINESS RATES BASELINE 2017/18</u>

6. Purpose

6.1 This section of the report sets out the main assumptions which have informed the estimation of the 2017/18 Business Rate Baseline and how the anticipated Business Rates Baseline informs the Council's 2017/18 Budget.

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 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 (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 2017/18 Business Rate Baseline must be formally approved, and then be submitted to DCLG through a statutory return by 31 January 2017.

7.5 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.

7.6 2017/18 is the first year that business rates will have been revalued since the Local Government finance system has changed. The methodology for adjusting for its impact is currently out for consultation. At present there are two major uncertainties affecting the estimates for 2017/18, these are

1. Whether there will be any additional adjustments for higher than average appeals
2. Whether the impact of additional reliefs will be adjusted

7.7 These factors and the outcome of this consultation will influence the final business rates baseline.

8. Setting the Business Rates Baseline

8.1 The Milton Keynes Council's estimated business rate income for 2017/18 is £150.9m 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 current 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 business rate yield 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 is estimated to retain £47.1m of the £150.9m of business rates forecast to be collected in 2017/18

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 reduce the overall business rate yield and are reimbursed to local authorities through a Section 31 grant. The Council is anticipating to receive £1.7m of S31 grant in 2017/18 to offset the resulting loss of business rate income.

10. Estimated Business Rate Distribution

10.1 The anticipated 2017/18 Business Rate Baseline for Milton Keynes Council is £150.9m, of this value £47.1m is estimated to be retained by the Council as Government funding, which includes £1.7m of business rate reimbursements through a S31 grant.

10.2 The Council's estimated retained funding is made up of £43m which is the estimated Baseline Funding level for Milton Keynes (central government are yet to confirm this amount for 2017/18), and £4.1m 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.

10.3 Table 2 shows the forecast 2017/18 Business Rate Baseline distributed through DCLG's funding model.

Table 2: Business Rates Baseline Distribution

Anticipated Business Rate Distribution	**2017/18 Value (£m)**
Milton Keynes Council Business Rate Baseline (total business rates collected after deductions)	**(150.9)**
50% Central share paid to Government	*75.5*
1% share paid to Buckinghamshire and Milton Keynes Fire Authority.	*1.5*
Deductions for Tariff paid to Central Government	*26.9*
Deduction for Levy paid to Central Government	*1.8*
Section 31 grant receivable	*(1.7)*
Renewable energy (100% retained)	*(0.2)*
Milton Keynes Council forecast retained Business Rates Funding	**(47.1)**

11. Risks

11.1 The scheme has now been in operation for three 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, this has impacted on the timing of receipts. We have known properties be delayed for up to two years, due to capacity issues and technical valuation issues in the Valuation Office. This makes income unpredictable.
- Appeals have caused a major uncertainty in the system nationally; this is particularly evident in Milton Keynes. We currently have over 1,500 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.
- There have also been a number of 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.

- National Government make changes to the system, for example moving from RPI to CPI as a measure of inflation and extending small business rate relief. This has reduced the growth in income locally by £1.5m per year.
- Over the last three years, the economy in Milton Keynes has continued to grow, but there is a risk that if the economy started 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 2016/17, we could lose £13m 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.
- In addition as noted in paragraph 7.6, the business rates system is currently being revalued which will impact on the retention system. The current proposed approach would increase the risk exposure for Milton Keynes due to appeals (often on properties still with previous appeals outstanding) and due to the treatment of reliefs. Consultation on this approach is currently ongoing, the final estimate of retained business rates will reflect the best estimates in late January.

12. The Future Outlook for Business Rates Retention

<u>Business Rates Retention</u>

12.1 The Government consulted on changes to the Business Rates Retention System over the summer and its response which are expected to come into operation from 2019/20, although aspects may change sooner. Local authorities are working with DCLG to develop the design for the future.

12.2 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 will 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.

<u>Business Rates Revaluation</u>

12.3 The Government is also currently consulting on the methodology for adjusting for the revaluation of business rates which takes effect from April, 2017. When the Government introduced the Business Rates Retention Scheme it signalled that it would adjust each authorities tariff or top up following a revaluation to ensure that retained income would the same after revaluation as before. The revised rateable value for Milton Keynes has not increased as much as the national average and therefore a reduction in the tariff to compensate for this is anticipated. The estimated £1.6m reduction in the tariff for Milton Keynes has been reflected in the baseline calculation in Table 2.

12.4 The adjusted tariff is based on the draft revaluation list published in September 2016. The final list will not be available until early 2017. As this is too late for the local government finance settlement when the tariffs/top ups are set, a correction for any change to the tariff will need to be made in 2018/19.

12.5 We are currently reviewing the detailed proposals in this consultation but have concerns that the full impact of appeals and mandatory reliefs on the level of retained business rates have not been fully considered.

13. Annexes

Annex A - Calculation of Council Tax Base 2017/18.

Annex B - Council Tax Base 2017/18 by Parish and Town Council.

Annex C - Council Tax Base before Discounts and Exemptions.

Annex D - Parish and Town Council Funding Allocations.

Annex E – Local Council Tax Reduction 2017/17 Amendments

14. Implications

14.1 Policy

14.2 Resources and Risk

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

14.3 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.

14.4 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