

REVISED COPY**2013/14 NON DOMESTIC RATES BASELINE SETTING**

Decision Taker: Councillor Bald (Cabinet Member for Finance)

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Executive Summary:

By means of the direction powers in paragraph 40 of schedule 1 to the Local Government Finance Act 2012, the Government has directed relevant authorities to make calculations, and supply information on their anticipated collectable business rate income for the following year.

This legislation also introduces a new local government funding model. This allows for a proportion of an authority's estimated business rate income for the following year to be retained, and form part of its Government funding. This 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 of Communities and Local Government 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.

This report outlines the key assumptions used to estimate the Business Rates Baseline, how this informs the Council's 2013/14 budget and the associated risks to the Council, as a result of the new funding methodology.

1. RECOMMENDATIONS

- 1.1 That the 2013/14 Business Rate Baseline be set at £138,600,424.

2. PURPOSE

- 2.1 This report sets out the changes in legislation, the main assumptions which have informed the estimation of the Business Rate Baseline and how the anticipated Business Rates Baseline informs the Council's 2013/14 Budget.

3. BACKGROUND

- 3.1 The Local Government Finance Act 2012 is the driving force behind the Government's localism agenda, and received Royal assent on 31st October 2012. It amends existing legislation (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.

3.2 Currently, all business rates collected in England are paid to Central Government from the billing authorities, and a proportion is then paid back to each authority as Formula Grant.

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

4. SETTING THE BUSINESS RATES BASELINE

4.1 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.

4.2 This calculation is required to be reported to DCLG through a statutory return, which must be submitted by 31st January 2013.

4.3 The Milton Keynes Council's estimated business rate income for 2013/14 is £138.60m 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. This is based on properties at the 30th September the preceding year.
- Deductions are then made for estimated mandatory and discretionary reliefs and exemptions, based on historical trends.
- 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 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.

5. LOCAL GOVERNMENT FUNDING MODEL

5.1 As a result of the new legislation, from 1st April 2013, the funding model for local government will change.

5.2 DCLG have produced a draft 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.

- 5.3 Milton Keynes Council is required to pay 2% of the total retained business rates to Buckinghamshire and Milton Keynes Fire Authority.
- 5.4 The retained business rates will then be reduced by a tariff and a levy on business rate growth (both will be annually increased by Retail Price Index). The tariff payment is made to central government in order to fund other authorities where their business rates are disproportionately low.
- 5.5 The retained business rates, along with the Revenue Support Grant, (which includes rolled in grants) forms Milton Keynes Council Government funding. The retained business rates will be 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.
- 5.6 After 8 years, the funding model will be reset, which may mean that all funding generated as a result of additional growth is lost. For this reason, until the treatment at reset periods is clarified, the Council budget will reflect the Business Rate Funding Baseline, with retained funding as a result of growth, being treated as a one off resource.

6. 2013/14 ESTIMATED BUSINESS RATE DISTRIBUTION

- 6.1 The table below shows the estimated business rate baseline, and how this will be distributed;

2013/14 Anticipated Business Rate Distribution	Value (£m)
Milton Keynes Council Business Rate Baseline (Total business rates collected after deductions)	138.60
50% Central Share to Government	(69.30)
2% Share to Buckinghamshire and Milton Keynes Fire Authority.	(1.39)
Deductions for Tariff & Levy paid to Central Government	(26.91)
Milton Keynes Council Total estimated retained Business Rates	41.00
Estimated retained business rate income due to growth	(0.40)
Milton Keynes Council Business Rate Baseline (Included in the Base Budget as Government Funding)	40.60

- 6.2 The anticipated retained business rates for Milton Keynes Council is £41m, of this value £0.4m relates to business rate growth.

6.3 The use of this funding will be set out in the Budget report in February. However, it is recommended that in light of the potential risks in relation to the reset of the business rates baseline and the possible variation in annual income only a proportion of the retained business rate income due to growth is included in the Council's baseline funding.

7. RISKS

7.1 There are 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 (£3.04m) before a safety net applies.
- 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.
- The cost of successful appeals will need to be met by the authority, these appeals may relate to a number of financial years.

8. ALTERNATIVE OPTIONS

8.1 Councils are required to ensure that the Business Rates Baseline is accurately recorded and returned to DCLG by 31st January 2013.

9. IMPLICATIONS

9.1 Policy

9.2 Resources and Risk

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

9.3 Carbon and Energy Management

There are no direct carbon and energy management implications as a result of this report.

9.4 Legal

The Council is following the direction powers of the Local Government Finance Act 2012.

9.5 Other Implications

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