Wards Affected:
All Wards

ITEM **17**

CABINET

9 NOVEMBER 2015

COUNCIL TAX BASE AND BUSINESS RATE BASELINE 2016/17

Responsible Cabinet Member:	Councillor Middleton, Cabinet member for Resources and Commercialism
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Executive Summary 2016/17

Council Tax Base 2016/17

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 central 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 2016/17; confirms the level of funding the Council will pay to town and parish councils and how this funding will be distributed.

Business Rates Baseline 2016/17

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 2016/17 Tax Base be set at 80,360.69 Band D equivalent properties.

1.2 That the provision for uncollectable amounts of Council Tax for 2016/17 be set at 1.63% producing an expected collection rate of 98.37%.

1.3 That the proposed 2016/17 funding contribution to parish and town councils of £512,000, as set out in section 5 of this report be noted and recommends to Council for approval 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 E be approved.

1.5 That the Cabinet recommends to Council that the Local Council Tax Reduction Scheme, as adopted by the Council on 14 January 2015, be continued for 2016/17, retaining the delegation to the Corporate Director of Resources to make technical legislative changes.

1.6 That the Council's current estimate of the 2016/17 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 2016/17

2. PURPOSE

2.1 This section of the report sets out the main assumptions used in calculating the Council Tax Base for 2016/17, the level of Council funding to be distributed to parish and town councils in 2016/17 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 2016.

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 2015, the Council approved the LCTRS for 2015/16. 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 If the Council did wish to revise or replace the existing scheme for 2016/17 it must; consult any major precepting authority which has power to issue a precept to it, publish a draft scheme in such manner as it thinks fit, and consult such other persons as it considers are likely to have an interest in the operation of the scheme. Consultation on a revised or replacement scheme will usually take 12 weeks. The Council must also consider whether it would wish to transitionally protect those people who may be adversely affected by any revised or replacement scheme.

3.6 This report recommends continuing with the current LCTRS for 2016/17 as the scheme agreed by the Council for the 2015/16 year was planned to remain in operation for at least two years. This gives individuals a level of certainty about the support they will receive, and enables the Council to review the scheme to inform any proposed changes in the future.

3.7 This scheme 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 of a technical nature as a result of changing regulations and legislation which are expected to have minimal impact to the overall scheme. The approval of these changes have been delegated to the Corporate Director of Resources.

3.8 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 2016/17, which would result in an in-year overspend and a budget correction in the 2017/18 Budget. The process and key assumptions to set the Tax Base for 2016/17 are as follows;

- The calculation of the Tax Base for precepting purposes is based on the number of properties at 14 September 2015 and the discounts applicable on 5 October 2015.
- The properties and discounts are then increased for estimated new builds within the 2015/16 and 2016/17 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 2016/17 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.
- The current Council Tax charge is adjusted for any planned annual increase, and multiplied by the 2016/17 Tax Base to calculate the forecast level of Council Tax income.

4.2 Milton Keynes is a high growth area the Council Tax Base is therefore expected to grow by 1,366 Band D equivalents within 2016/17. A recent review of single person discount has also contributed to the increase in the Tax Base.

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 2016/17 will be reduced to 10,107 from the current year forecast of 10,609. 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 is 98.37% which is a 0.29% improvement from 2015/16 rate of 98.08%. The revised collection rate is still a prudent estimate and is also informed by the potential adverse effect to income collection levels as a result of the recent introduction of Universal Credit in Milton Keynes and the wider Welfare Reform agenda.

4.6 These assumptions result in a proposed Tax Base of 80,360.69 Band D equivalents, which would result in Council Tax income of £95.1m for Milton Keynes Council (based on a 1.95% Council Tax increase, which is the current planning assumption proposed in the 2016/17 draft Revenue Budget).

4.7 The Tax Base calculation (set out at annex A) must be approved by 31 January 2016; 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.

4.8 The following table summarises the position:

Table 1: Tax Base 2016/17 – Band D equivalents

Total of Band D Equivalents	90,659.92
Provision for Valuation Change	860.00
Net Impact of Local Council Tax Reductions	(10,106.77)
Provision for Non Collection	(1,052.46)
Total Band D equivalent properties	**80,360.69**

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.

5.4 Due to the Government's national deficit reduction strategy, the Council's RSG is estimated to continue to reduce by up to 14% each year, for the foreseeable future. To ensure financial sustainability, the Council needs to reduce costs accordingly, and as such, the Council's Medium Term Financial Strategy outlined that parish and town council funding would be reduced each year, in line with forecast annual Government funding reductions.

5.5 These funding reductions have been refreshed in line with the latest government funding reduction estimates as part of the development of 2016/17 Budget. Table 2 sets out a summary of parish and town council funding distributed since 2013/14 and estimated funding levels up to 2019/20.

Table 2: Parish and town council funding summary

	2013/14 £m	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Parish and town council funding	0.676	0.676	0.676	0.595	0.512	0.445	0.409
MKC funding top-up	0.100	0.100	0.000	0.000	0.000	0.000	0.000
Reductions to funding	0.000	(0.100)	(0.081)	(0.083)	(0.067)	(0.036)	(0.025)
MKC funding top-up (one-off)	*0.000*	*0.075*	*0.025*	*0.000*	*0.000*	*0.000*	*0.000*
Total parish and town council funding for the year	**0.776**	**0.751**	**0.620**	**0.512**	**0.445**	**0.409**	**0.384**

5.6 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 £856,098 for 2016/17, based on 2015/16 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.

5.7 After the Council has transferred £512,000 of funding, this will result in a total loss to town and parish councils of £344,098 (less than 6% of the total town and parish precept income) for 2016/17.

5.8 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 2015/16. Based on the 2015/16 average precept per Band D equivalent the increase in the Tax Base as a result of housing growth could generate an additional £93,000 parish precept income in 2016/17, reducing the overall loss to £251,098 (less than 5% of total town and parish precept income).

Funding allocation methodology

5.9 Milton Keynes Council consulted on how the parish and town funding should be allocated from 2016/17.

5.10 The consultation ran from 28 July 2015 to 12 October 2015 and proposed a new funding allocation which would provide individual parish and town councils with their funding levels each year from 2016/17 to 2019/20.

5.11 Two options were consulted upon:

Option 1: To fix the loss of precept income due to Local Council Tax Reductions at 2015/16 level and then each year apply the annual funding reduction to the grant amounts on an equal percentage loss of income. This would mean estimated grant levels could be provided to parish and town councils for the medium term. This method will be slightly less accurate in terms of reflecting losses as it will be based on historic data, but will give greater certainty and predictability of future funding levels.

Option 2: To retain the current distribution method where grants need to be recalculated every year, once an estimate of the Tax Base has been completed in late October. Grant distribution is based on estimated losses, calculated from prior year precepts and the October estimated Tax Base. This method will more accurately reflect losses but grant levels can only be set on an annual basis.

5.12 Of the 21 responses received; 13 respondents supported option 2, and as such this is the approach the Council is recommending to take. Annex D summarises all of the responses received.

5.13 The final allocations will be confirmed once the level of funding for town and parish councils has been allocated as part of the 2016/17 Budget decision in February 2016. 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.

5.14 The provisional funding allocations to parish and town councils are illustrated in annex E.

<u>BUSINESS RATES BASELINE 2016/17</u>

6. PURPOSE

6.1 This section of the report sets out the main assumptions which have informed the estimation of the 2016/17 Business Rate Baseline and how the anticipated Business Rates Baseline informs the Council's 2016/17 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 2016/17 Business Rate Baseline must be formally approved, and then be submitted to DCLG through a statutory return by 31 January 2016.

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.

8. SETTING THE BUSINESS RATES BASELINE

8.1 The Milton Keynes Council's estimated business rate income for 2016/17 is £158.5m 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 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 £48.3m of the £158.5m of business rates forecast to be collected in 2016/17.

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 S31 grant. The Council is anticipating to receive £2.1m of S31 grant in 2016/17 to offset the resulting loss of business rate income.

9.9 Lastly, the funding model based (based on information available so far) will be reset in 2020, which does present a risk that all funding generated as a result of additional growth is lost. Recent announcements indicate significant change to this system, but no detail is currently available.

10. ESTIMATED BUSINESS RATE DISTRIBUTION

10.1 The anticipated 2016/17 Business Rate Baseline for Milton Keynes Council is £158.5m, of this value £48.3m is estimated to be retained by the Council as Government funding, which includes £2.1m of business rate reimbursements through a Section 31 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 2016/17), and £5.3m of forecast business rate growth above the baseline, which includes the financial benefit of growth since 2013/14 including a number of new commercial developments anticipated in Magna Park and Eagle Farm.

10.3 Table 3 shows the forecast 2016/17 Business Rate Baseline distributed through DCLG's funding model.

Table 3: Business Rates Baseline Distribution

Anticipated Business Rate Distribution	2016/17 Value (£m)
Milton Keynes Council Business Rate Baseline (total business rates collected after deductions)	**(158.50)**
50% Central share paid to Government	*79.25*
1% share paid to Buckinghamshire and Milton Keynes Fire Authority.	*1.59*
Deductions for Tariff paid to Central Government	*28.24*
Deduction for Levy paid to Central Government	*3.17*
Section 31 grant receivable	*(2.05)*
Milton Keynes Council forecast retained Business Rates Funding	**(48.30)**

11. RISKS

11.1 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 for Milton Keynes equates to a £8.5m reduction of business rate income from the 2016/17 Budget 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 a substantial financial challenge to all 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.

12. THE FUTURE OUTLOOK FOR BUSINESS RATES RETENTION

12.1 In his speech to the Conservative Party conference on Monday 5 October, Chancellor George Osborne announced that local authorities will in the future be able to keep 100% of business rates by 2020. This applies to the national position, not at a local level.

12.2 The main points in the statement and press release were:

- Each local authority will keep all of the business rates they collect.
- Revenue Support Grant will be phased out.
- This will be accompanied by extra power and responsibilities; it is currently estimated that of the overall £26bn of business rates collected each year nationwide; £2.1bn of these business rates are diverted by the government to fund expenditure outside of local authorities responsibility (c£10m of new responsibilities for Milton Keynes Council).
- All growth in revenue will be kept by councils;
- Local authorities will be able to reduce the unit cost of business rates to provide a freedom to offer discounts to businesses.
- Areas with directly elected mayors will be able to add a premium to the rate (likely to be capped at 2 pence on the rate) to pay for new infrastructure, subject to support from the business community (through the Local Enterprise Partnership).

12.3 However issues such as redistribution between local authorities; relative needs, safety net funding and the balance between certainty of funding and sensitivity all need to be determined.

12.4 These changes are quite major to both the business rates retention system and other departmental spend and could provide substantial opportunities for the Council, however it may make time to work out the details and implement the changes. There may be further information on the revised scheme and timeline for change in the Autumn Statement which will be announced at the end of November.

13. ANNEXES

Annex A - Calculation of Council Tax Base 2016/17.

Annex B - Council Tax Base 2016/17 by Parish and Town Council.

Annex C - Council Tax Base before Discounts and Exemptions.

Annex D - Parish Consultation Responses.

Annex E - Parish and Town Council Funding Allocations.

14. IMPLICATIONS

14.1 Policy

14.2 Resources and Risk

14.3

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

14.4 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.

14.5 Other Implications

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

Background Papers:

Milton Keynes Council Parish and Town Council Funding Consultation Responses

DCLG Council Tax Base 1 Form

DCLG National Non Domestic Rate 1 Form