CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting:	6th December 2016
Report of:	Chief Operating Officer
Subject/Title:	Non-Domestic Rates Taxbase 2017/18
Portfolio Holder:	Councillor Peter Groves

1.0. **Report Summary**

1.1. Cheshire East Council is responsible for delivering more than 500 local public services across an area of over 1,100km^2 for over 370,000 residents. The budget to deliver these services in the period April 2016 to March 2017 is around £730m, which is raised from a combination of local taxes (business rates and council tax), national taxes (in the form of Government Grants) and payments direct from service users.

1.2. Cheshire East Council collects c.£135m in Business Rates from over 13,500 business premises and this funding is distributed between central government (70%*), Cheshire East Council (29%*) and Cheshire Fire Authority (1%). The amount of business rates collected in Cheshire East per head is higher than the North West average and the number of VAT registered businesses is as high as the number in central Manchester at over 18,000.

1.3. This report is the first time the Council has provided a Non-Domestic Rate Tax base report, and members are being asked to note the process and estimates being used. The purpose of the report is to raise awareness of the increasing important of Business Rates in local government and improve overall understanding of how changes in business rates affect the Council's finances and improve medium term forecasting.

1.4. Cheshire East Council is reporting a Non Domestic Rates taxbase in rateable value (RV) terms of £353.4m for 2017/18. This includes increases following the national revaluation of all Non Domestic properties and economic growth and forecast future growth in the local area. This is an increase of £10.7m (3.1%) on the RV level as at January 2016. The net yield is estimated to be c.£135.2m after the deductions of exemptions, discounts, losses in collection and provisions for appeal losses. Collection rates continue to hold at 99% over a two year period which is high against national comparisons.

1.5. The overall financial health, performance, resilience and value for money at Cheshire East Council is strong, according to external assessments, despite freezing Council Tax for five out of six consecutive years. The 2015/16 accounts were signed off by the Council's external auditors, without qualification, and savings are consistently achieved through efficiency, removing duplication of effort, making reductions in management costs, and planned programmes of asset disposals. The approach continues to protect funding provided to front line services.

*includes the payment of the fixed rate tariff due as part of the Business Rates Retention Scheme

2.0 Recommendation

1.6. That Cabinet considers the information given in this report and notes that:

1.6.1. The non domestic rates estimates and calculations for 2017/18 will be calculated in accordance with the regulations as follows:

	2017/18	£m
	Projected NDR net income	135.2
Less	Payable to DCLG (50% share)	-67.6
Less	Payable to Fire Authority (1% share)	-1.4
	Cheshire East Council proportionate share	**66.2**
Less	*Fixed Tariff payable to DCLG*	*-29.7*
Add	*S31 compensation grants*	*4.5*
	Cheshire East Council Retained share	**41.0**

1.6.2. That the Chief Finance Officer in consultation with the Portfolio Holder for Finance and Assets will finalise these estimates based on the latest data for submission to the Department for Communities and Local Government (DCLG) in January 2017.

3.0 Other Options Considered

1.7. None.

4.0 Reason for Recommendation

1.8. In line with the setting of the Domestic Tax base, which is in accordance with the Local Authorities (Calculation of Tax Base) Regulations 1992 where Cheshire East Council is required to agree its tax base before 31st January 2017, this report sets out the calculation of the Non Domestic rates taxbase for noting purposes only.

5.0 Background/Chronology

Background

1.9. The Local Government Finance Act 2012 gave local authorities the power to retain a proportion of funds obtained from business rates in their area.

1.10. The introduction of the Business Rates Retention Scheme in April 2013 allowed local authorities to 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.

1.11. The scheme provides for non-domestic rates collected by a billing authority to be shared between itself, its major precepting authorities and central government in the following shares:

- Central Government – 50%
- Cheshire East Council – 49%

- Cheshire Fire Authority – 1%

1.12. The statutory framework requires a billing authority, before the beginning of the financial year, to forecast the amount of business rates that it will collect during the course of the year and, from this, to make a number of allowable deductions in order to arrive at a figure for its non-domestic rating income.

1.13. There is no change to the way business rates are calculated; these continue to be set nationally. In the budget announcement in March 2016 the Government announced changes to Small Business Rate Relief (SBRR) from 2017-18. Relief will permanently doubled from 50% to 100% and the thresholds for relief will increase from 6,000 and 12,000 to 12000 and 15000 respectively. This means that eligible ratepayers whose RV is below 12,000 will receive 100% relief and those with RV's between 12,000 and below 15,000 will receive tapered relief. Following the new rating list the Government will set new thresholds for Rural Settlement Relief and deminimus empty relief, new legislation will be laid for the 2017 transition scheme.

1.14. Any difference between forecast amounts and final outturns will result in a surplus, or deficit on the billing authority's Collection Fund. Any such surplus or deficit is shared between the parties in the same proportionate shares as set out above.

1.15. The retained business rates for Cheshire East are then reduced by a Tariff and a Levy on business rates growth (if applicable). The tariff payment is made to central Government in order to fund other authorities where their business rates are disproportionately low compared to their need. For 2017/18, the tariff payment estimated to be payable by Cheshire East Council is £29.7m.

1.16. Cheshire East Council continues to be in a pooling arrangement with the Greater Manchester (GM) Authorities (also includes Cheshire West and Chester from 2016/17) for the purposes of Business Rates Retention. The purpose of the pool is to maximise the retention of locally generated business rates to further support the economic regeneration of GM and Cheshire Councils. As a pool the members will be entitled to retain the levy charge on growth that would normally be paid over to Central Government. Cheshire East will retain 50% of this levy charge locally before paying the remainder over to the pool.

1.17. The Cheshire and GM Pool are also taking part in a pilot scheme where the pool is now able to retain locally the 50% of "additional growth" in business rates which in the usual Business Rates Retention Scheme would be paid directly to DCLG. Income from this pilot is currently being held within the pool with distribution yet to be decided.

Setting the Business Rates Baseline

1.18. Officers from the Revenues, Finance, Regeneration and Planning teams work together to ascertain potential impacts of the business rates retention scheme as well as aiming to predict the likely economic and rateable value growth for the coming financial year. Current and historic data is being used to forecast changes in rateable value due to growth, decline and appeals.

1.19. The Council has information available from several sources to judge likely levels of economic growth including:
- Information from the business engagement team
- Data from the Council's planning system
- Data from the team working to generate capital receipts.
- Data from the Revenues collection service in terms of appeals and expected growth.
- Data from the Valuation Office Agency
- Strategy Finance knowledge of the BRRS calculations

1.20. During 2016/17 work has been underway to monitor the growth predictions that were noted in Annex 6 of the Medium Term Financial Strategy 2016-19. This has given a solid methodology for the calculation of new potential growth for 2017/18.

1.21. **Annex 1** sets out the profile of the current business rates taxbase made up by each type of business. This is shown alongside the profile as at January 2016 (used to set the taxbase for 2016/17). Growth and/or decline in each sector are as a result of actual business additions or changes, or as a result of the national revaluation in September 2016. The increase in RV for this period is £6.4m

1.22. Cheshire East Council's estimated business rate income for 2017/18 has been calculated as follows –

- The total gross business rate yield which is the rateable value of properties within Cheshire East, multiplied by the non-domestic rating multiplier (estimated for 2017/18).

- Deductions are then made for estimated mandatory and discretionary reliefs and exemptions, based on local intelligence and past trends.

- Deductions are also made for estimated losses in collection, based on historical trends and local intelligence and to meet the cost of collection as prescribed by Government.

- Deductions are made for the estimated impact of changes to rateable values through new notified appeals.

- An adjustment is also made to reflect local intelligence on the estimated impact of anticipated future changes to business activity in the year. This could be demolitions or change to current business in the taxbase or anticipated new growth into the area.

1.23. **Annex 2** sets out the summary calculation resulting in a final estimated net rates value of £135.2m for 2017/18. Cheshire East's share of this revenue stream after the fixed rate tariff payment (£29.7m) and S31 compensation grants (£4.5m) is **£41.0m**. This is an increase in net rates of £1.7m (4.3%) on the 2016/17 retained rates level.

6.0 Wards Affected and Local Ward Members

1.24. All

7.0 Implications of Recommendations

1.25. Policy Implications

1.25.1. None.

1.26. Legal Implications

1.26.1. None.

1.27. Financial Implications

1.27.1. The calculation of the tax base is a professional judgement which provides an estimate that contributes to the calculation of overall funding for Cheshire East Council in each financial year.

1.27.2. The Council works with the Valuation Office Agency to ensure non-domestic properties are correctly rated, so that ratepayers are billed correctly and that financial forecasts are reasonable. Changes in the number of businesses, (although not all VAT registered businesses will occupy separately rated premises), and the fact that all premises may be subject to business rate discounts, exemptions or appeals against rates payable are factors that could affect the estimated tax base.

1.28. Equality Implications

1.28.1. None.

1.29. Rural Community Implications

1.29.1. This report provides details of taxbase implications across the borough.

1.30. Human Resource Implications

1.30.1. None.

1.31. Public Health Implications

1.31.1. None.

1.32. Other Implications (please specify)

1.32.1. None.

8.0 Risk Management

1.33. Consideration and recommendation of the Non Domestic Tax Base for 2017/18 to Council ensures that the statutory requirement to set the taxbase is met.

1.34. 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 (c.£10m for Cheshire East), before a safety net compensation payment 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.

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

9.0 Contact Information

The background papers relating to this report can be inspected by contacting the report writer:

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