Cheshire East Council

Cabinet

Date of Meeting:	5th December 2017
Report of:	Director of Finance & Procurement
Subject/Title:	Non-Domestic Rates Taxbase 2018/19
Portfolio Holder:	Councillor Paul Bates, Finance and Communications

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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 2017 to March 2018 is around £720m, 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.£139m (before accounting adjustments) in Business Rates from over 14,000 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. The purpose of the report is to continue to raise awareness of the increasing importance 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 £351m for 2018/19. This is an increase of £2m (0.6%) on the RV level as at September 2016. The net yield is estimated to be c.£134.7m 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 at Cheshire East Council is strong, according to external assessments, despite freezing Council Tax for five out of six consecutive years up to and including 2015/16. The 2016/17 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 from CE to DCLG due as part of the Business Rates Retention Scheme

2.0 Recommendation

1.6. That Cabinet consider the information given in this report and note that:

1.6.1. The non domestic rates estimates and calculations for 2018/19 will be calculated in accordance with the regulations as follows:

	2018/19	£m
	Projected NDR net income after accounting adjustments	134.7
Less	Payable to DCLG (50% share)	-67.4
Less	Payable to Fire Authority (1% share)	-1.3
	Cheshire East Council proportionate share	**66.0**
Less	*Fixed Tariff payable to DCLG*	*-24.2*
Add	*Pooling arrangement levy reduction*	*+0.8*
Add	*Section 31 Compensation grant**	*+0.5*
	Cheshire East Council Retained share	**43.1**

** to compensate for additional business rate discount measures introduced by DCLG since the inception of the BRRS scheme in April 2013*

1.6.2. The Director of Finance and Procurement in consultation with the Portfolio Holder for Finance and Communication will finalise these estimates based on the latest data for submission to the Department for Communities and Local Government (DCLG) in January 2018.

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 2018, this report sets out the calculation of the Non Domestic rates taxbase for noting purposes only.

5.0 Background/Chronology

<u>Background</u>

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.

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 2018/19, the tariff payment estimated to be payable by Cheshire East Council is £24.2m.

1.16. Cheshire East Council continues to be in a pooling arrangement with the Greater Manchester (GM) Authorities plus Cheshire West and Chester 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 "levy charges" locally before paying the remainder over to the pool. This saving is estimated to be £0.8m.

1.17. The Cheshire and GM Pool are also continuing to take part in a pilot scheme where the pool is 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.

<u>Setting the Business Rates Baseline</u>

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 2017/18 work has continued to monitor the growth predictions that were noted in Annex 6 of the Medium Term Financial Strategy 2017-20. This has continued to be a solid methodology for the calculation of new potential growth.

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 September 2016 (used to set the taxbase for 2017/18). Growth and/or decline in each sector are as a result of actual business additions or changes. The increase in RV to July 2017 is £1.0m

1.22. Cheshire East Council's estimated business rate income for 2018/19 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 2018/19).

- 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 £134.7m for 2018/19. Cheshire East's share of this revenue stream after the fixed rate tariff payment (£24.2m) is **£43.1m**. This is an increase in net rates of £2.1m (5%) on the 2017/18 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 2018/19 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:

Name:	Jan Willis
Designation:	Director of Finance and Procurement
Tel No:	01270 686979
Email:	jan.willis@cheshireeast.gov.uk