

**CALCULATION OF COUNCIL TAX BASE AND LOCAL BUSINESS RATE INCOME  
FOR 2016/17**

**Key Decision No. FR L95**

**CABINET MEETING DATE (2015/16)**

**25 January 2016**

**COUNCIL MEETING DATE (2015/16)**

**27 January 2016**

**CLASSIFICATION:**

**Open**

**If exempt, the reason will be listed in the  
main body of this report.**

**WARD(S) AFFECTED**

**All Wards**

**CABINET MEMBER**

**Cllr Taylor**

**Finance**

**KEY DECISION**

**Yes**

**REASON**

**Affects Two or More Wards**

**CORPORATE DIRECTOR**

**Ian Williams Corporate Director of Finance and Resources**

## **1. CABINET MEMBER'S INTRODUCTION**

- 1.1 This report is a key component of setting the budget and Council Tax for the forthcoming financial year. The monies available for service delivery in this year depend on the amount of Council Tax that we believe will be collected and we have to be careful to estimate this accurately.
- 1.2 In addition, Members are asked to agree the baseline level of Local Business Rate income the Council will be likely to receive for 2016/17.

## **2. CORPORATE DIRECTOR'S INTRODUCTION**

- 2.1 Section 13A(2) of the Local Government Finance Act 1992 requires the Council as a billing authority to operate Hackney's Council Tax Reduction Scheme. For 2016/17 there are no proposed changes to the scheme that was agreed and consulted upon prior to its approval during 2013.
- 2.2 Section 33 of the Local Government Finance Act 1992 requires that the authority must agree Hackney's Council Tax Base for 2016/17 as calculated in accordance with the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012. This decision must be taken and communicated to preceptors by 29 January 2016. This report recommends a Council Tax Base of 66,624 Band D equivalents based on a Council Tax collection rate for 2016/17 of 95%.
- 2.3 Section 3 of The Non-Domestic Rating (Rates Retention) Regulations 2013 requires that for 2016/17 the authority must estimate Hackney's billing authority Non-Domestic Rating income and calculate: the central share due to the Secretary of State, the major preceptor's share due to the Greater London Authority and any deductions to be made for qualifying relief. This decision must be taken and communicated to the Secretary of State and the Greater London Authority by 29 January 2016. The figures contained in this report will become the effective starting point for setting the Budget for 2016/17, subject to the completion of NDR1.
- 2.4 This report asks the Council to approve the estimate of business rates yield for 2016/17, to be used in the budget and tax setting report before Council on 2 March 2016.

## **3. RECOMMENDATIONS**

**Cabinet is recommended to:**

- 3.1 **Recommend to Council that in accordance with the Local Authorities (Calculation of Council Tax Base) (England)**

Regulations 2012, the amount calculated by Hackney Council as its Council Tax Base for 2016/17 shall be 66,624 Band D equivalent properties adjusted for non-collection. This represents an estimated collection rate of 95%.

**3.2 Recommend to Council that in accordance with The Non-Domestic Rating (Rates Retention) Regulations 2013 Hackney's non-domestic rating income for 2016/17 is £81,328,917 subject to completion of the NDR1. This comprises three elements.**

- £40,664,459 representing 50% of the amount at 3.2 which is payable in agreed instalments to Central Government
- £16,265,783 representing 20% of the amount at 3.2 which is payable in agreed instalments to the Greater London Authority
- £24,398,675 representing 30% of the amount at 3.2 which is retained by Hackney Council and included as part of its resources when calculating the 2016/17 Council Tax requirement.

**Council is recommended to agree:**

**3.3 That in accordance with the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, the amount calculated by Hackney Council as its Council Tax Base for 2016/17 shall be 66,624 Band D equivalent properties adjusted for non-collection. This represents an estimated collection rate of 95%.**

**3.4 That in accordance with The Non-Domestic Rating (Rates Retention) Regulations 2013 Hackney's non-domestic rating income for 2016/17 is £81,328,917, subject to completion of NDR1. This comprises three elements.**

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#### **4. REASONS FOR DECISION**

##### **Council Tax Base**

**4.1 The rules for calculating the Council Tax Base are set out in the Local Authorities (Calculation of Council Tax Base) (England) Regulations**

2012. The calculation is based on the valuation list and other information available on 29 November 2015.

- 4.2 Firstly the authority has to estimate the number of properties in each band after allowing for exempt properties. These figures are also adjusted to allow for discounts (e.g. single person discount and Council Tax Reduction Scheme) and the impact of changes in discounts and exemptions which allow the Council to charge additional Council Tax to the owners of empty homes and second homes. A formula is then used to calculate the total number of Band D equivalent properties. This gives a higher weighting to properties in bands above Band D and a lower weighting to properties in bands below Band D. This can therefore be thought of as the average number of properties liable to pay Council Tax. The calculation is set out at **Appendix 1**.
- 4.3 The Authority then has to estimate what percentage of the total Council Tax due for the year it will be able to collect. This is usually referred to as the collection rate. This percentage is then applied to the total number of Band D equivalent properties to give the tax base to be used for setting the Council Tax. Another way of considering the tax base is that it represents the amount of Council Tax income that will be received from setting a Band D Council Tax of £1.
- 4.4 There are a number of factors to be considered when assessing the likely ultimate collection rate for 2015/16. 2013/14 marked the first year of the new Local Council Tax Reduction Scheme and also significant changes in the level of discounts allowed for second homes and empty properties, which in turn led to increased volatility regarding the eventual collection rate to be achieved, particularly as the Council was often issuing bills for monies it has not had to previously collect. In the event, collection rates have held up since this time and it is anticipated, given the current in year collection performance, that the budgeted collection rate of 95% will be achieved for 2015/16.
- 4.5 Whilst the Council will continue to use all its powers to collect the Council Tax due from all residents who are liable to pay there will inevitably be a number of bills that may be subject to appeal or delay in payment. Accordingly the Corporate Director of Finance and Resources has taken the view that the budgeted collection rate for 2016/17 will remain at 95% albeit the Council will look to exceed this. Actual performance information will be used to inform the setting of the collection rate for 2017/18.
- 4.6 If actual collection in the forthcoming year exceeds the budgeted collection rate this is likely to generate a surplus in the Collection Fund which would provide additional one off resources available for use in 2017/18 and beyond either for one-off revenue or the Capital Programme.

- 4.7 As set out above, it is currently estimated that in 2015/16 Council Tax collection will meet the collection rate set for the year of 95%, but it should be recognised that non-payment continues to have a measurable effect.
- 4.8 The current budget strategy assumes collection rates of 95% going forward to 2019/20. The overall budget for 2015/16 was set to take account of this level and the Revenues section will be making every effort to bring the eventual collection rate up to above 95% to support the budget strategy going forward.
- 4.9 Having carefully taken account of all the issues raised above, including the undertaking of extensive modelling, it is considered that a collection rate of 95% represents a realistic and robust estimate for 2016/17 which is therefore recommended.
- 4.10 A collection rate of 95% will result in a tax base of 66,624 Band D equivalents, as shown in the table below.

<b>2016/17 TAX BASE/COLLECTION RATE</b>	
	<b>2016/17</b>
Aggregate of Band D Equivalents	<b>70,131</b>
Estimate of Collection Rate	95%
<b>Tax Base (Band D Equivalents)</b>	<b>66,624</b>

- 4.11 This compares to a tax base of 63,896 Band D equivalents used in the 2015/16 budget setting. A majority of the increase in the tax base has already occurred during 2015/16. At the end of November 2015, compared to November 2014, there has been an increase of 2,834 properties on the Council Tax database, supplemented by 199 properties fewer entitled to a discount.

### **Local Business Rates Retention Scheme**

- 4.12 The Local Business Rate retention scheme came into effect from 2013/14 as part of the changes to Local Government funding in the Local Government Finance Act 2012.
- 4.13 In essence the scheme allows Local Government to keep 50% of any Business Rate growth from its baseline position. For Hackney and all other London Boroughs this 50% share has to be split on a 60/40 basis with the Greater London Authority (GLA). This has the potential to generate significant resources for any authority although of course it will be subject to the economic climate of the day which can influence business growth in the short term.

- 4.14 To determine its baseline position Hackney, along with all other Local Authorities has to complete an NDR1 form which includes the number of rateable local businesses (which is not limited to commercial organisations as it includes schools, churches and of course an authority's own civic estate) multiplied by the appropriate business rate multiplier to arrive at a total cash sum which is then adjusted for various allowable reliefs and discounts to give the final baseline position. This form is required to be completed and submitted to CLG by 31 January each year in respect of the following financial year.
- 4.15 Up until 2013/14, the calculation within NDR1 had not required formal approval by Members as it has had no direct impact on the Council's finances. From 2013/14 onwards, under the current Council constitution, this does now require formal agreement by Members and as such is the subject of the formal recommendation at paragraph 3.2 and 3.4.
- 4.16 It should be noted that the Council, at the time of writing this report, are still in the process of completing the NDR1 form. The figures included within this report and recommendations are therefore based on officers' latest estimates of the figures to be included in NDR1 but it is anticipated that the final version of this will have been completed by the time of Cabinet and Council meetings. Members will be informed if there are any changes required to the estimate as a result of the completion of the form.
- 4.17 As part of the Autumn Statement announcement, the Chancellor announced the extension of the small business rate relief scheme for a further year in 2016/17 alongside others already in place thus reducing the amount of business rates payable, resulting in a reduced net rates yield. In order that Local Authorities are not disadvantaged by these additional reliefs, a grant is payable to them. It is estimated that Hackney Council will receive £1.4m in s31 grant in this respect during 2016/17.
- 4.18 In addition to this, the Council retains a cost of collection allowance for the administration of the collection of business rates and for 2016/17, this allowance is £500k.
- 4.19 The total resources therefore available to the Council in respect of Non-Domestic Rates and to be included in the budget to be approved by Council in March will therefore be £26.300m, as follows:

	£m
Net rates yield retained by Hackney	24.398
S31 grant re Autumn Statement reliefs	1.402
Cost of Collection allowance	0.500
<b>Total resource for budget from NDR</b>	<b>26.300</b>

## **5. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

- 5.1 The requirement to calculate the Council Tax base and NDR1 has been laid down by Statute. As such there are no alternatives to be considered.

## **6. BACKGROUND**

### **Council Tax Collection**

- 6.1 **2014/15 Council Tax Collection:** In January 2015, it was forecast that the collection rate set for the year of 95% would be exceeded. It was estimated that there would be a surplus on the collection fund at the end of March 2015 of £4.614m, of which Hackney's share was £3.551m. In the final accounts for 2014/15 the actual surplus was £5.239m, of which Hackney's share was £4.033m, largely in line with the estimate used for budget setting purposes. Actual collection for the year was 95.4%.
- 6.2 **2015/16 Council Tax Collection:** In preparing the 2015/16 budget, assumptions were made about the Council Tax collection performance for both in-year collection and for arrears of Council Tax. Based on collection rates which were being achieved at the time and an estimated collection rate for those Council Tax payers of working age who previously claimed Council Tax Benefit now required to pay at least 15% of their weekly Council Tax bill. The assumed overall collection rate for 2015/16 was again set at 95%. As at the end of December 2015 the cash and CTRS collected was almost 80% of the total amount due. The actual amount of cash collected was almost identical in percentage terms as at the same stage in the previous year. With three months of the year remaining, it is anticipated that the eventual collection will meet the collection rate of 95% set for the year. Around £1.825m of arrears relating to previous years has also been recovered to the end of November with expectations this will rise to around £2.2m by the end of the year. In addition to this and as set out in para 4.11, the amount of Council Tax collectable is higher than was assumed in the budget for 2015/16 and this will create a surplus on the Collection Fund with Hackney's share available for use in 2016/17. This will be taken account of in the expected budget to be proposed to Council in March 2016.
- 6.3 Hackney's tax base for 2016/17 must be notified to the GLA and to the various levying bodies which base their levies on the Council Tax Base. Under regulations this must take place before 29 January 2016.

The appropriate bodies will be notified by the due date once the tax base is confirmed.

## **7. COMMENTS OF THE CORPORATE DIRECTOR OF FINANCE AND RESOURCES**

- 7.1 The setting of a realistic and prudent collection rate for Council Tax in 2016/17 is an essential component of the 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, the major part of which would need to be met from Hackney's 2017/18 Budget. This would impact adversely on the overall budget strategy.
- 7.2 The proposed tax base of 66,624 Band D equivalents would result in Council Tax income of £66.521m for Hackney's element, assuming no increase in the Council Tax in 2016/17. The overall resources for the 2016/17 budget will be dependent on the outcome of the final formula grant settlement due to be announced around the end of January 2016, although it is hoped that there will be no significant changes from the provisional settlement figures published in December 2015.
- 7.3 Similarly the setting of an accurate baseline Local Business Rates is essential to enable the Council to be able to plan effectively. Once agreed the amount of the Business Rates attributable to Central Government and the GLA will need to be paid over at certain dates irrespective of whether or not the income has been received by the Council from local businesses. Thus an overly optimistic or simply erroneous baseline could have significant cash flow implications as well as adverse impact on the future year's budgets.
- 7.4 As set out in section 4.16, the NDR1 form that is used to calculate the baseline Business rate yield for the following financial year is still subject to finalisation. The figures included within this report are therefore based upon Officers' best estimate at this stage. I do not anticipate however any major variation from the estimate included.

## **8. COMMENTS OF THE CORPORATE DIRECTOR OF LEGAL, HR AND REGULATORY SERVICES**

- 8.1 Cabinet is being asked to recommend to Council, and Council is being asked to agree, the calculation of the Council Tax Base as required by s.33 Local Government Finance Act (LGFA) 1992. S.33 imposes a duty on the Council, as a billing authority, to calculate the basic amount of its council tax by reference to a formula set out in the Act and Regulations made under the Act.
- 8.2 S.67 LGFA originally provided that adopting the council tax base had to be a decision of full Council. This section was amended by s.84 Local



Government Act 2003 which abolished that requirement. However, the calculation is not an “executive” function and it cannot be discharged by the Mayor and Cabinet. It could be delegated to an officer but Hackney has not delegated the decision to an officer so the responsibility rests with full Council.

- 8.3 As the report makes clear, the decision has to be taken by 31 January in each year and therefore this report will be considered by Council on 27 January 2016.
- 8.4 An important part of the calculation of the council tax base is the collection rate which is assumed in the calculation. It is important that Members adopt a prudent approach to agreeing this assumption since, as the report makes clear, an unrealistic assumption is likely to lead to a deficit on the account which will have to be met from elsewhere thus undermining the integrity of the Council's budget. Members will therefore wish to satisfy themselves that the proposed collection rate of 95% is realistic.
- 8.5 Members are reminded that the calculation of the Council Tax Base is covered by s.106 of the Local Government Finance Act 1992. This provides that if a Member owes two or more months' arrears of Council Tax, they are obliged to disclose this fact to the meeting and not vote on the matter. Failure to comply is a criminal offence punishable by a fine.

## APPENDICES

### Appendix 1 – Council Tax Base Calculation Schedule

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