

TITLE OF REPORT: CALCULATION OF 2018/19 COUNCIL TAXBASE AND LOCAL BUSINESS RATES INCOME: FCR O10

CABINET MEETING DATE 2017/18

22 January 2018

COUNCIL MEETING DATE 2017/18

24 January 2018

CLASSIFICATION:

Open

WARD(S) AFFECTED

All Wards

CABINET MEMBER

Cllr Rennison

Finance

KEY DECISION

Yes

REASON

Spending or Savings

GROUP DIRECTOR

Ian Williams Finance and Corporate 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 2018/19.
- 1.3 The Business Rate element of the Council's budgeted income is becoming more significant as the results of the 2017 revaluation exercise feed through into the system along with the move to the 2018/19 London 100% Business Rates Pooling Pilot scheme. The introduction of the London 100% BRR pool increases the amount of business rates income that we need to budget for and collect which in turn brings an increased risk regarding the forecasting of the amount to be collected, particularly as the likelihood of appeals regarding the revaluation is expected to increase. The position regarding appeals is made more unpredictable by the length of time it takes for the Valuation Office to deal with these. Unfortunately this is entirely outside the control of the Council.

2. GROUP DIRECTOR'S INTRODUCTION

- 2.1 Section 33 of the Local Government Finance Act 1992 requires that the authority must agree Hackney's Council Tax Base for 2018/19 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 31 January 2018. This report recommends a Council Tax Base of 71,145 Band D equivalents based on a Council Tax collection rate for 2018/19 of 95%.
- 2.2 Section 3 of The Non-Domestic Rating (Rates Retention) Regulations 2013 and the designation of Hackney along with other London boroughs as pooling authorities under the 100% Business Rates (BRR) pilot, requires that for 2018/19 the authority must estimate Hackney's billing authority Non-Domestic Rating income and calculate the major preceptor's share due to the Greater London Authority and any deductions to be made for qualifying relief. The figures contained in this report will become the effective starting point for setting the Council's Budget for 2018/19, subject to the completion of NDR1.
- 2.4 This report asks the Council to approve the estimate of business rates yield for 2018/19, to be used in the budget and tax setting report before Council on 1 March 2017. As set out in the Cabinet Member's introduction above, the Business Rate element of the Council's budgeted income is becoming more significant as the results of the 2017 revaluation exercise feed through into the system along with the introduction of the London 100% BRR pilot.

2.5 It should also be noted that that the Welfare Reform Act 2012 abolished Council Tax Benefit in March 2013 and replaced it with the Council Tax Reduction Scheme (CTRS). A report setting out the CTRS for 2018/19 will be presented to Cabinet on 22 January 2018.

3. RECOMMENDATION(S)

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 2018/19 shall be 71,145 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 2018/19 is £135,091,978 subject to completion of the NDR1. This comprises three elements.

- **£48,760,086 which is payable in agreed instalments to the Greater London Authority**
- **£82,518,155 which is retained by Hackney Council and included as part of its resources when calculating the 2018/19 Council Tax requirement.**
- **£3,813,737 which is payable in agreed instalments to Central Government (in respect of 2017/18)**

Council is recommended to agree:

3.4 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 2018/19 shall be 71,145 Band D equivalent properties adjusted for non-collection. This represents an estimated collection rate of 95%.

3.5 That in accordance with The Non-Domestic Rating (Rates Retention) Regulations 2013 Hackney's non-domestic rating income for 2018/19 is £135,091,978 subject to completion of the NDR1. This comprises three elements.

- **£48,760,086 which is payable in agreed instalments to the Greater London Authority**
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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 the 26th November 2017.

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 2018/19. 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 2017/18.
- 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 Group Director of Finance and Corporate Resources has taken the view that the budgeted collection rate for 2018/19 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 2019/20.
- 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 2019/20 and beyond either for one-off revenue or the Capital Programme.
- 4.7 As set out above, it is currently estimated that in 2017/18 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 2021/22. The overall budget for 2017/18 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 2018/19 which is therefore recommended.

- 4.10 A collection rate of 95% will result in a tax base of 71,145 Band D equivalents, as shown in the table below.

2018/19 TAX BASE/COLLECTION RATE	
	2018/19
Aggregate of Band D Equivalents	74,890
Estimate of Collection Rate	95%
Tax Base (Band D Equivalents)	71,145

- 4.11 This compares to a tax base of 68,399 Band D equivalents used in the 2017/18 budget setting. A majority of the increase in the tax base has already occurred during 2017/18

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 allowed Local Government to keep 50% of any Business Rate growth from its baseline position. For Hackney and all other London Boroughs the remaining 50% share was split on a 60/40 basis with the Greater London Authority (GLA). In 2017/18 these proportions were amended to: - the GLA 37%; Central Government 33% and London Boroughs 30%.
- 4.1.4 A further change to the system will be made in 2018/19 with the introduction of the London 100% Business Rates Retention and Pooling Pilot scheme. Under this scheme Hackney will retain 64% of the rates raised and the GLA will keep 36% with no Government share.
- 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 3.5.
- 4.16 It should be noted that we, 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 Budget and previous Budgets, the Chancellor announced various measures of business rates relief and a change to the inflation rate which will be used in the calculations that will apply in 2018/19 and which reduce 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.

With regards to inflation, rating income will now be indexed by the (lower) CPI rather than the RPI which is currently used. Turning to reliefs the Government introduced various discretionary relief schemes in 2017/18 which continue into 2018/19 and has doubled the SBRR relief and introduced new thresholds.

It is estimated that Hackney Council will receive £7.705m in s31 grant in this respect of the Budget changes during 2018/19

- 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 2018/19, this allowance is £546k.
- 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 £90.224m, as follows:

Net rates yield retained by Hackney	78.321
Share of 2017/18 Surplus c/fwd	3.651
S31 grant re Budget reliefs	7.705
Cost of Collection allowance	0.547
Total NDR resources	90.224

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 **2016/17 Council Tax Collection:** In January 2017, 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 2017 of £4.481m, of which Hackney's share was £3.525m. In the final accounts for 2016/17 the actual surplus was £5.796m, of which Hackney's share was £4.563m. The variance was taken forward in the calculation of the estimate to be used in the 2017/18 budget. Actual collection for the year was 95.7%.
- 6.2 **2017/18 Council Tax Collection:** In preparing the 2017/18 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 2017/18 was again set at 95%. As at the end of December 2017 the cash and CTRS collected was almost 79% 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 £1.369m of arrears relating to previous years has also been recovered to the end of December with expectations this will rise to around £1.8m by the end of the year. In addition to this, the amount of Council Tax collectable is higher than was assumed in the budget for 2017/18 and this will create a surplus on the Collection. This will be taken account of in the budget to be proposed to Council in March 2018.
- 6.3 Hackney's tax base for 2018/19 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 31 January 2017. The appropriate bodies will be notified by the due date once the tax base is confirmed.

7. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

- 7.1 The setting of a realistic and prudent collection rate for Council Tax in 2018/19 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 2018/19, the major part of which would need to be met from Hackney's 2019/20 Budget. This would impact adversely on the overall budget strategy.
- 7.2 The proposed tax base of 71,145 Band D equivalents would result in Council Tax income of £74,629m for Hackney's element, assuming no increase in the Council Tax in 2018/19. The overall resources for the 2018/19 budget will be dependent on the outcome of the Local Government Finance Settlement due to be announced in early February 2018, although it is hoped that there will be no significant changes from the provisional settlement figures published in December 2017.
- 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 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, which may change as we receive updated technical guidance on the operation of the 100% BRR Pilot and Pool.

8. COMMENTS OF THE DIRECTOR OF LEGAL

- 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 24 January 2018.
- 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

Report Author	<i>Michael Honeysett, 0208 356 3332</i>
Comments of the Group Director of Finance and Resources	<i>Michael Honeysett, 0208 356 3332</i>
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