

**CALCULATION OF 2019/20 COUNCIL TAXBASE AND LOCAL BUSINESS RATES
INCOME**

KEY DECISION NO. FCR P15

CABINET MEETING DATE 2018/19

21 January 2019

COUNCIL MEETING DATE

23 January 2019

CLASSIFICATION:

Open

WARD(S) AFFECTED

All Wards

CABINET MEMBER

Councillor Rebecca Rennison

Finance and housing needs

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 must 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 2019/20 and approve the introduction of the 100% Empty Property Council Tax Premium.
- 1.3 In 2019/20, the London 100% Business Rates Retention (BRR) pool has been revised by Government to reduce the amount of business rates retained locally from 100% to 75%. Despite the reduction in the retained percentage, there is still a significant financial advantage in remaining in the pool as is demonstrated below.
- 1.4 There has been little progress in dealing with the appeals to business rates valuations that arose from the 2017 revaluation. This brings an increased risk regarding the forecasting of the amount to be collected and the position 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 2019/20 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 2019. This report recommends a Council Tax Base of 72,552 Band D equivalents based on a Council Tax collection rate for 2019/20 of 95.0%.
- 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 75% Business Rates (BRR) pilot, requires that for 2019/20 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 the Government share, 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 2019/20, subject to the completion of 2019/20 NDR1 (an official return that is submitted to Government).
- 2.3 This report asks the Council to approve the estimate of business rates yield for 2019/20, to be used in the budget and tax setting report before Council on 27 February 2019.
- 2.4 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). We are proposing no changes to the 2018/19 scheme.

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 2019/20 shall be 72,552 Band D equivalent properties adjusted for non-collection. This represents an estimated collection rate of 95.0%.**
- 3.2 Recommend to Council that in accordance with The Non-Domestic Rating (Rates Retention) Regulations 2013 Hackney's non-domestic rating income for 2019/20 is £145,674,832 subject to completion of the NDR1. This comprises three elements.**
 - £40,105,924 which is payable in agreed instalments to the Greater London Authority**
 - £75,309,327 which is retained by Hackney Council and included as part of its resources when calculating the 2018/19 Council Tax requirement.**
 - £30,259,581 which is payable in agreed instalments to Central Government**
- 3.3 Recommend to Council that no changes are made to the current CTRS scheme in 2019/20.**
- 3.4 Recommend to Council that the Council Tax Empty Property Premium on properties that have been empty for 2 years or more is increased from 50% to 100%**

Council is recommended to agree:

- 3.5 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 2019/20 shall be 72,552 Band D equivalent properties adjusted for non-collection. This represents an estimated collection rate of 95.0%.**
- 3.6 That in accordance with The Non-Domestic Rating (Rates Retention) Regulations 2013 Hackney's non-domestic rating income for 2019/20 is £145,674,832 subject to completion of the NDR1. This comprises three elements.**
 - £40,105,924 which is payable in agreed instalments to the Greater London Authority**
 - £75,309,327 which is retained by Hackney Council and included as part of its resources when calculating the 2018/19 Council Tax requirement.**
 - £30,259,581 which is payable in agreed instalments to Central Government**
- 3.7 No changes are made to the current CTRS scheme in 2019/20.**

3.8 The Council Tax Empty Property Premium on properties that have been empty for 2 years or more is increased from 50% to 100%

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 2019.

4.2 Firstly, the authority must 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 must 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 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 very well since this time and it is anticipated, given the current in year collection performance, that a budgeted collection rate of 95% is achievable in 2019/20. This is the same percentage that was applied in 2018/19.

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 2019/20 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 2020/21.

- 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 2020/21 and beyond either for one-off revenue or the Capital Programme.
- 4.7 A collection rate of 95% will result in a tax base of **72,552** Band D equivalents, as shown in the table below.

2019/20 TAX BASE/COLLECTION RATE	
	2019/20
Aggregate of Band D Equivalents	76,370
Estimate of Collection Rate	95.0%
Tax Base (Band D Equivalents)	72,552

- 4.8 This compares to a tax base of 71,145 Band D equivalents used in the 2018/19 budget setting. Most of the increase in the tax base has already occurred during 2018/19.

Local Business Rates Retention Scheme

- 4.9 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.
- 4.10 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%.
- 4.11 A further change to the system was made in 2018/19 with the introduction of the London 100% Business Rates Retention and Pooling Pilot scheme. Under this scheme Hackney retains 64% of the rates raised and the GLA keeps 36% with no Government share.
- 4.12 Another change will be made in 2019/20 with the introduction of a 75% London Business Rates Retention and Pooling Pilot scheme. Under this scheme, Hackney will retain 48% of the rates raised, the GLA will retain 27% and Central Government 25%.
- 4.13 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.

- 4.14 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 3.6.
- 4.15 It should be noted that we, at the time of writing this report, we 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.
- 4.16 As part of the 2018 Autumn Budget, the Chancellor announced rate reliefs for all retailers with a rateable value of £51,000 or less that will receive a one third reduction in their business rates bill in 2019/20 and 2020/21. In addition, in previous Budgets, the Government announced various other business rates reliefs which will be rolled forward into 2019/20. Also, the change to the inflation rate which was used in the calculations that were made in 2018/19 will also be rolled forward which will reduce the amount of business rates payable in 2019/20. In order that Local Authorities are not disadvantaged by these additional reliefs and the inflation rate change, an equivalent special grant will be payable to them.

It is estimated that Hackney Council will receive 9.850m in s31 grant in this respect of the 2018 Budget and other Government policies noted at 4.16

- 4.17 In addition to this, the Council retains a cost of collection allowance for the administration of the collection of business rates and for 2019/20, this allowance is **£556k**
- 4.18 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 **£85.160m**, as follows:

Net rates yield retained by Hackney	64.215
Share of 2017/18 Surplus c/fwd.	10.358
S31 grant re Budget reliefs	9.851
Cost of Collection allowance	0.556
Total NDR resources	85.160

4.19 **100% Council Tax Empty Property Premium**

Under the current regulations, we can levy a 50% Premium on properties that are empty for more than two years. However, the Government included a provision in the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 which allows Councils to levy a 100% Premium on properties that are empty for 2 years or more. The aim is to encourage property owners using property as a simple asset, and not a home it was built for. If it does not and the number of empty properties

remains the same, then moving to 100% from the current 50% Premium will generate c. £200k additional Council Tax income in Hackney.

4.20 Council Tax Reduction Scheme (CTRS)

It is a statutory requirement that Council approves the CTRS scheme each year. In 2018/19 we amended the 2017/18 scheme but made it clear that we would review the scheme and in particular assess the impact of the amendments after two years of operation. It follows that we will not be making any changes to the scheme which will be effective in 2019/20 but will make assessment of the impact of the changes during the forthcoming financial year.

5. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

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

6. BACKGROUND

Council Tax Collection

- 6.1 **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 who were 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 March 2018 the cash and CTRS collected was 95.98% of the total amount due. The actual amount of cash collected was greater in percentage terms compared to the end of March in the previous year, with 95.01% having been collected. £1.729m of arrears relating to previous years had also been recovered by the end of the year. In addition to this, the amount of Council Tax collectable was higher than was assumed in the budget for 2017/18 and contributing towards a surplus on the Collection Fund that is taken account of in the budget setting proposals.
- 6.2 **2018/19 Council Tax Collection:** In preparing the 2018/19 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 17% of their weekly Council Tax bill. The assumed overall collection rate for 2018/19 was again set at 95%. As at the end of December 2018 the cash and CTRS collected was over 79% of the total amount due. 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. We expect £1.8m arrears relating to previous years to have been recovered by year end. In addition to this, the amount of Council Tax collectable is higher than was assumed in the

budget for 2018/19, which will create a surplus on the Collection. This will be taken account of in the budget to be proposed to Council in March 2019

- 6.3 Hackney's tax base for 2019/20 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 2019. 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 2019/20 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 2019/20, the major part of which would need to be met from Hackney's 2020/21 Budget. This would impact adversely on the overall budget strategy.

- 7.2 The proposed tax base of 72,552 Band D equivalents would result in Council Tax income of £78.388m for Hackney's element, assuming no increase in the Council Tax in 2019/20. The overall resources for the 2019/20 budget will be dependent on the outcome of the Final Local Government Finance Settlement due to be announced in early February 2019, although it is hoped that there will be no significant changes from the provisional settlement figures published in December 2018.

- 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 4.15, 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 75% 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 must be taken by 31 January in each year and therefore this report will be considered by Council on 23 January 2019.
- 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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