Hackney

COUNCIL TAXBASE AND LOCAL BUSINESS RATES INCOME 2021/22 Key Decision No. FCR R.36

CABINET 25TH JANUARY 2021 COUNCIL 27TH JANUARY 2021	CLASSIFICATION: OPEN

WARD(S) AFFECTED: ALL WARDS
CABINET MEMBER Deputy Mayor Rebecca Rennison Cabinet Member for Finance, Housing Needs and Supply
KEY DECISION Yes REASON Spending or Savings
GROUP DIRECTOR Ian Williams: Finance and Corporate Resources

<u>LATE REPORT (REASONS FOR LATENESS:</u>
Members are asked to note that at the time of the publication of the Council agenda, this report was not ready. The report was late because the decision regarding the continuation of the London Business Rates Pool into 2021/22 was delayed and this forms a key part of the report and the recommendations. The time a formal decision was received, did not allow for sufficient time for officer deliberation and Member consultation to take place before the publication date.

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 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 We recognise that this will be a challenging year in financial terms for many of our residents and businesses. We will be bringing forward plans in the budget to provide additional support for those on the lowest incomes and will continue to lobby the Government for increased support for struggling local businesses.

1.3 In addition, Members are asked to agree the baseline level of Local Business Rate income the Council will be likely to receive for 2021/22.

1.4 The Government has decided it will not provide for the continuation of a 75% local retention scheme in 2021/22 and so the local share will be the same as in 2020/21 - 30%.

1.5 On the basis of advice from London Councils and its advisers, the boroughs have unanimously agreed not to retain the London Business Rates Retention and Pooling pilot arrangement in 2021/22. This is discussed more fully in the report.

1.6 There has still 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.

2.0 GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES INTRODUCTION

2.1 Section 33 of the Local Government Finance Act 1992 requires that the authority must agree Hackney's Council Tax Base for 2021/22 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 2021. This report recommends a Council Tax Base of 72,039 Band D equivalents based on a Council Tax collection rate for 2021/22 of 94%. The reasons for the reduction in the assumed council tax collection rate from 95.5% are given below

2.2 Section 3 of The Non-Domestic Rating (Rates Retention) Regulations 2013, requires that for 2021/22, 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 2021/22, subject to the completion of 2021/22 NDR1 (an official return that is submitted to the Government).

2.3 This report asks the Council to approve the estimate of business rates yield for 2021/22, to be used in the budget and tax setting report before Council on 24 February 2021.

2.4 It should also be noted 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 not proposing any changes to the 2020/21 scheme for 2021/22.

2.5 The report is late because the decision regarding the continuation of the London Business Rates Pool into 2021/22 was delayed and this forms a key part of the report and the recommendations. The earliest that we were likely to receive a formal decision would not have allowed sufficient time for officer deliberation and Member consultation to take place before the publication date.

3.0 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 2021/22 shall be 72,039 Band D equivalent properties adjusted for non-collection. This represents an estimated collection rate of 94%.

3.2 Recommend to Council that in accordance with The Non-Domestic Rating (Rates Retention) Regulations 2013 Hackney's non-domestic rating income for 2021/22 is £91,064,033 subject to completion of the NNDR1. This comprises three elements.

- **£33,471,970 which is payable in agreed instalments to the Greater London Authority**
- **£27,738,583 which is retained by Hackney Council and included as part of its resources when calculating the 2021/22 Council Tax requirement.**
- **£29,853,480 which is payable in agreed instalments to Central Government**

3.3 To note that no changes are proposed to the current CTRS scheme in 2021/22.

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 2021/22 shall be 72,039 Band D equivalent properties adjusted for non-collection. This represents an estimated collection rate of 94%.

3.5 That in accordance with The Non-Domestic Rating (Rates Retention) Regulations 2013 Hackney's non-domestic rating income for 2021/22 is £91,064,033 subject to completion of the NDR1. This comprises three elements.

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3.6 To note that no changes are proposed to the current CTRS scheme in 2021/22.

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 22nd November 2020.

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 2021/22. 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. Despite this, collection rates have held up very well since this time but in 2020/21, they were adversely affected by the Covid-19 pandemic and the associated economic downturn which reduced rates below the budgeted estimate of 95.5% to an estimated 92.04%. Whilst we expect collection rates to recover in 2021/22, given the on-going impact of Covid-19 on the local economy, we do not expect it to reach 95.5% in 2021/22 although we fully expect to achieve this rate in 2022/23. It is very difficult to estimate what the rate will be in 2021/22 given the uncertainties resulting from Covid-19 and the associated restrictions, the economic downturn and Brexit, but we believe that an assumed rate of 94% is an evidence based prudent estimate which takes account of our improved collection performance since 2013/14 and the ongoing downturn in the local economy and its impact on residents' ability to pay.

4.5 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 2022/23 and beyond, either for one-off revenue or the Capital Programme.

4.6 A collection rate of 94% will result in a tax base of **72,039** Band D equivalents, as shown in the table below.

2021/22 TAX BASE/COLLECTION RATE	
	2021/22
Aggregate of Band D Equivalents Estimate	76,637
of Collection Rate	94.0%
Tax Base (Band D Equivalents)	**72,039**

4.7 This compares to a tax base of 74,386 Band D equivalents used in the 2020/21 budget setting.

Business Rates and the Local Business Rates Retention Scheme

4.8 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.

4.9 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 following distribution of all business rates collected: - the GLA 37%; Central Government 33% and London Boroughs 30%.

4.10 A 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 retained 64% of the rates raised and the GLA kept 36% with no Government share plus a share of any growth achieved by the boroughs

4.11 Yet another change was made in 2019/20 with the introduction of a 75% London Business Rates Retention and Pooling Pilot scheme. Under this scheme, Hackney retained 48% of the rates raised, the GLA retained 27% and Central Government 25%. In both 2020/21 and 2021/22 the Government decided it would not provide for the continuation of the 75% local shares scheme and that the 2017/18 shares of business rates income will apply, i.e. GLA 37%; Central Government 33% and London Boroughs 30%. This reduces the amount of business rates retained by Hackney from 48% to 30% but the losses in income will be mitigated to some extent by additional Government funding.

4.12 In 2020/21, even though the financial benefits of the London Business Rates Retention and Pooling Pilot scheme were lower than previous years, the boroughs decided to continue with the pooling arrangement. This decision in part was made for strategic reasons as boroughs regarded the scheme as a key milestone on the journey towards greater fiscal and functional devolution, demonstrating the clear benefits of collective working between London authorities.

4.13 For 2021/22, the outlook for business rates in London has changed as a result of Covid-19, the associated downturn in the economy, Brexit and a potential decision by the Valuation Office to devalue office rateable values in England. Because of these factors, the risk of boroughs making business rates losses is much greater than in previous years and these losses would not be equally distributed amongst the boroughs (as explained below) and so the boroughs unanimously decided not to continue the pooling scheme in 2021/22 but remain committed to reconstituting the pool in 2022/23.

4.14 The potential office devaluation stems from appeals made by office ratepayers for a 25% rebate in their bills to bring them in line with the reliefs given by the Government to the retail, hospitality and leisure sectors. According to the BBC, 150,000 ratepayers have appealed. A Valuation Office Agency spokeswoman said that discussions were still ongoing, and no formal decision has been made. She added: "Understanding the impact of the ongoing pandemic on rateable values is a complex legal and valuation issue. We are working to resolve these cases as quickly and efficiently as we can." It is possible therefore that office space could be devalued by 25% in 2020/21 and this could continue into 2021/22 as office rental levels are unlikely to recover in 2021/22. Moreover, in the past the Government has never compensated councils for decisions taken by the Valuation Office and so any financial burden is likely to fall wholly on councils. The LGA is lobbying the Government to reintroduce the 2020/21 75% collection fund deficit compensation in 2021/22 if the devaluation does take place

4.14 The combination of the continuation of Covid-19, the economic downturn, Brexit and the potential office devaluation means that many boroughs may see significant losses in business rates in 2021/22 which if a pooling scheme operated would have to be borne by all boroughs. However, the losses would not be borne equally as the method of allocating out the losses would be the same as the method for allocating out any pooling surplus and so boroughs that benefited from this method such as Hackney would lose from the allocation of the deficit.

4.15 A further issue is that overriding the pooling arrangement is the Government's system of safety net protection which limits the amounts of losses any borough can make irrespective of the total pooling losses in London. Because the amount of safety net protection depends on the resource bases of the boroughs which vary, so will the protection and hence shares of any pooling losses.

4.16 To determine its budgetary position Hackney, along with all other Local Authorities has to complete an NNDR1 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 MHCLG by 31 January each year in respect of the following financial year.

4.17 Up until 2013/14, the calculation within the NNDR1 had not required formal approval by Members as it 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 recommendations at paragraph 3.2 and 3.5.

4.18 **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.**

4.19 In past national budgets, the Government has announced various rate reliefs for all businesses, a small number of which are being rolled into 2021/22. In 2020/21, various Covid-19 related reliefs were also introduced, in particular the significant retail, hospitality and leisure (RHL) sector reliefs but as stands none of these will be rolled forward into 2021/22.

It is estimated that Hackney Council will receive £5.196m in s31 grant in respect of previous national budgets and other Government policies.

4.20 In addition to this, the Council retains a cost of collection allowance for the administration of the collection of business rates and for 2021/22, this allowance is **£596k**

4.21 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 **£48.859m**, as follows:

Net rates yield retained by Hackney	43.714
Share of 2020/21 Deficit c/fwd.	-16.571
Cost of Collection allowance	0.596
2020/21 Retail, Hospitality, Leisure (RHL) Reliefs S31 Grant	13.967
Government Deficit Contribution S31 Grant	1.957
Other S31 Grants	5.196
Total NDR resources	**48.859**

So we have a deficit of £16.571m in 2020/21 which is largely offset by the 2020/21 RHL reliefs and the 75% compensation scheme.

4.23 Council Tax Reduction Scheme (CTRS)

It is a statutory requirement that the Council approves the CTRS scheme each year. As stated above, no changes are proposed to the current scheme.

5.0 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.

6.0 BACKGROUND

6.1 Policy Context

This report sets out the Council Taxbase and estimated NNDR income in 2021/22. Both of these are required by statute. Hackney's tax base for 2021/22 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 2021. The appropriate bodies will be notified by the due date once the tax base is confirmed

6.2 Equality Impact Assessment

This is not a service but one element of a statutory obligation for residences to pay council tax. The calculation of this element – Taxbase – is determined by statute and regulations.

6.3 Sustainability

As above

6.4 Consultations

Relevant consultations have been carried out involving the Mayor, the Member for Finance, and Directors of Finance.

6.5 Risk Assessment

The risks associated with the schemes Council's financial position are detailed in this report.

7.0 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 2021/22 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 2021/22, the major part of which would need to be met from Hackney's 2022/23 Budget. This would impact adversely on the overall budget strategy.

7.2 The proposed tax base of 72,039 Band D equivalents would result in Council Tax income of £84.98m for Hackney's element, assuming no increase in the Council Tax in 2021/22. The overall resources for the 2021/22 budget will be dependent on the outcome of the Final Local Government Finance Settlement due to be announced in early February 2021, although we do now have the provisional settlement figures.

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 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. Forecasting the estimated business rates yield is extremely difficult for 2021/22 given the ongoing impact of Covid-19, the associated economic downturn, Brexit and the potential office valuation. The risks to business rates income arising from these factors has resulted in the London boroughs not continuing with the London Rates Retention and Pool in 2021/22 although the boroughs are committed to reconstituting the scheme in 2022/23

7.4 **As set out in section 4.18, the NNDR1 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.**

8. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

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 27 January 2021

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 94% 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.

BACKGROUND PAPERS

None

APPENDICES

Appendix 1 – Council Tax Base Calculation Schedule

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