Hackney

COUNCIL TAXBASE AND LOCAL BUSINESS RATES INCOME 2022/23	
COUNCIL **24 JANUARY 2022**	**CLASSIFICATION:** Open **If exempt, the reason will be listed in the main body of this report.**
WARD(S) AFFECTED: All	
CABINET MEMBER: Councillor Robert Chapman, Cabinet Member for Finance, Housing Needs and Supply	
GROUP DIRECTOR Ian Williams, Group Director 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 money available for service delivery this year depends on the amount of Council Tax that we believe will be collected and we must be careful to estimate this accurately. This report recommends that the Council assume an estimated collection rate for Council Tax for 2022/23 of 93%. While providing a small improvement over that now estimated for 2021/22, we believe this is a realistic but prudent assumption for council tax collection in the next financial year.

1.2 Members are asked to agree the baseline level of Local Business Rate income the Council will be likely to receive for 2022/23.

1.3 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 2022/23. However, we are proposing to join a localised pooling scheme comprising the City of London and 6 other London boroughs, which is forecast to deliver the Council significant financial benefit (£2.5m to £2,9m). More detail is provided on this below.

2. 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 2022/23 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 2022. This report recommends a Council Tax Base of £73,981 Band D equivalents based on a Council Tax collection rate for 2022/23 of 93%.

2.2 Section 3 of The Non-Domestic Rating (Rates Retention) Regulations 2013, requires that for 2022/23, we must estimate Non-Domestic Rating income for Hackney (the billing authority) 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 2022/23, subject to the completion of 2022/23 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 2022/23 to be used in the budget and tax setting report before Council on 2nd March 2022.

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 2021/22 scheme for 2022/23.

3.0 RECOMMENDATION(S)

<u>Council</u> is recommended to agree:

3.6 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 2022/23 shall be £73,981 Band D equivalent properties adjusted for non-collection. This represents an estimated collection rate of 93%

3.7 In accordance with The Non-Domestic Rating (Rates Retention) Regulations 2013 Hackney's non-domestic rating income for 2022/23 is £117,771,466. This comprises three elements.

- **£43,355,953 which is payable in agreed instalments to the Greater London Authority**
- **£35,746,691 which is retained by Hackney Council and included as part**

of its resources when calculating the 2022/23 Council Tax requirement.

- **£38,668,822 which is payable in agreed instalments to Central Government.**

3.8 To note that no changes are proposed to the current CTRS scheme in 2022/23.

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 15th December 2021.

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 2022/23. 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 cyber attack to fall to an estimated 92% and in 2021/22 the ongoing impact of the cyber attack on billing and recovery and covid19 is likely to reduce it to 90%. We expect collection rates

to recover in 2022/23, albeit at a reduced level compared to pre covid19 and cyber rates, and expect it to reach 93%. It is very difficult to estimate what the actual rate will be in 2022/23 given the uncertainties resulting from the ongoing impact of the cyber attack, Covid-19 and Brexit. We are also mindful of the wider cost of living pressures, and the impact this will have on residents ability to pay and it is ever more important that we continue to provide and signpost to support where it is needed in a timely manner to prevent arrears positions escalating for council taxpayers. Notwithstanding this we believe that the assumed rate of 93% is a prudent estimate.

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 2023/24 and beyond, either for one-off revenue spending or the Capital Programme. If on the other hand, the collection rate set is over-optimistic, this may result in a deficit on the collection fund at the end of 2022/23, the major part of which would need to be met from Hackney's 2023/24 Budget.

4.6 A collection rate of 93% will result in a tax base of £73,981 Band D equivalents, as shown in the table below.

2022/23 TAX BASE/COLLECTION RATE	
	2022/23
Aggregate of Band D Equivalents Estimate of Collection	79,549
Rate	93%
Tax Base (Band D Equivalents)	73,981

4.7 This compares to a tax base of 72,039 Band D equivalents used in the 2021/22 budget setting. The increase is primarily due to an increase in the number of properties in Hackney.

Business Rates and the London 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 applied, i.e. GLA 37%; Central Government 33% and London Boroughs 30%. This reduced the amount of business rates retained by Hackney from 48% to 30% but the losses in income were 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 expected to be lower than in 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. However, the onset of the pandemic during 2020/21 had a significant impact on the collection of business rates, which led to an estimated £14.2m loss to be shared by pool participants. Further modelling for 2021/22 and 2022/23 showed a mix of risks across London, which, matched with the comparatively estimated low level of financial return meant that it was agreed that the London Pool would not continue for 2021/22 and 2022/23.

4.13 However, given the way pools work, there is an opportunity for a smaller and more localised pooling arrangement in London in 2022/23, to generate additional income for the pooling boroughs with a very limited risk. This is discussed below.

Localised Business Rates Pool 2022/23

4.14 The paragraphs below set out the proposed arrangements for a Local London Business Rates Retention Pool in 2022/23.

4.15 As Members are aware there was not a London-wide business rates pooling

arrangement in 2021-22 and there will not be one in 2022-23. These decisions were made primarily in light of the ongoing risks to business rates income arising from Covid19. However, given the way pools work, there is an opportunity for a smaller and more localised pooling arrangement in London in 2022-23, to generate additional income for the pooling boroughs with a very limited risk.

4.16 It should be noted that forming a pool in no way dilutes the sovereignty of each participating authority as each is still responsible for the collection of business rates within its locality. However, forming a pool alters the framework which determines how much business rate income is retained locally with the aim of increasing this amount.

4.17 In order to demonstrate the advantage of the proposed pooling arrangement, we must first distinguish between two types of authority - authorities that pay a tariff and levy and those that receive a top up grant. At the introduction of the Business Rates Retention system in 2013-14, the government calculated a funding level for every local authority – "baseline funding level" - which is the funding level the Government calculated a council needed to meet its 'needs'. This was derived from the previous formula grant system. The Government also calculated a "business rates baseline" for each authority based on the average business rates it contributed to the national pool over the two years from 2010/11.

4.18 Where an authority's business rates baseline exceeds its funding baseline, it pays the difference to central government as a tariff which is used to pay for a top-up for authorities whose funding baseline is above its business rates baseline. In each year since 2013-14, these tariffs and top-ups have been uprated by the business rates multiplier, normally RPI. Tariff Authorities also pay a levy on any growth above the business rates baseline. This levy is paid to the Government and used to fund the safety net system which protects those councils which see their year-on-year business rate income fall by more than a set percentage below their baseline funding levels.

4.19 As part of the business rates regime, the Government has allowed Local Authorities with a geographic link to form a business rate pool. In forming a pool, the group of authorities are seen as a single entity from a business rate perspective and in doing this, have the potential to retain more of the business rate income generated locally. A pool is able to do this by reducing the levy payment. At its highest rate, 50% of growth is paid to the Government through the levy but by forming a pool, this rate can be lowered to 0%, and funds which would have been earmarked to the Government would instead be retained locally and can be distributed to all pool members.

4.20 For a pool to totally eliminate a levy payment, the value of the top ups paid by all

the top up boroughs in the pool must be equal to or exceed the tariff paid by the tariff boroughs. It follows, to maximise the benefits of a pool, we need a composition that delivers a net top-up subject to the constraint that there must be a geographic link between the members. The grouping of authorities together to achieve the net top up is largely a mathematical exercise (albeit constrained by the requirement to share geographical boundaries).

4.21 Detailed research by the Pool's advisers (who were also advisers to the London wide pool), London Futures, has determined a composition of boroughs which will deliver a net top-up and thereby maximise the financial benefit to the participating boroughs. This pool contains 2 levy paying authorities, the City of London Corporation and Tower Hamlets. All the other participating authorities (Brent, Barnet, Enfield, Hackney, Haringey and Waltham Forest) are top-up authorities i.e. authorities which do not generate enough income from business rates to meet their funding requirement, and therefore receive additional funding from the Government to top them up. Their inclusion lowers the levy rate from 50% to 0%.

4.22 There would be a significant financial benefit from pooling in this way. The City of London and Tower Hamlets are forecast to make a levy payment in 2022/23 in the range of £30m-£35m. The benefit can be maximised by the proposed pool composition which reduces it to £0m. So there is a net benefit to the participating boroughs of £30m - £35m and this is money that in the absence of the pool would be paid to central government and lost to London. In addition to this financial benefit, if the pool enjoys growth, then this will be distributed to all members.

4.23 Turning to the risks, whilst there has been an impact from the pandemic on the City of London's business rate collection, this was the lowest in London. Monitoring of 2021/22 collection rates have remained stable as has the overall amount of collectable business rates. This provides some comfort that business rate growth will remain for the foreseeable future, albeit subject to continued monitoring and further analysis of trends in business premises usage i.e. office space, which represents 80%+ of the rates base. In order to lose all business rate growth, the City Corporation would need to experience a 20% loss in the value of business rates, something which has not been experienced to date. Also, the business rate system has a floor funding level, which the pool will become responsible for should participating authorities fall below this level. These payments would be triggered with significant reductions in business rate income. The make-up of the selected authorities make this circumstance unlikely.

4.24 In view of the benefits and limited risks, it is proposed the LBH joins a localised pool with the City of London and the following other boroughs: - Tower Hamlets, Brent, Haringey, Enfield, Waltham Forest and Barnet. The agreed distribution method is that the City will receive 40% of the financial benefit (appropriate as the City is

taking most of the risk) with the balance being shared out to the remaining boroughs on the basis of equal shares. Hackney's share of the levy gain (i.e. before any growth) is estimated to be £2.8m

4.25 The detailed recommendations which require approval for Hackney to participate in the pool are listed in **Appendix 2 and** Cabinet is asked to approve these.

NNDR Estimates, Reliefs and Special Grants

4.26 In past national budgets, the Government has announced various rate reliefs for all businesses in addition to various Covid-19 related reliefs, in particular the significant retail, hospitality and leisure (RHL) sector reliefs. Hackney, in common with all Councils will receive compensation for these reliefs

It is estimated that Hackney Council will receive £14.338m in s31 grants in compensation for the reliefs given in previous and in the current national budget, and from the impact of other current and past Government policies. The grants are primarily in respect of reliefs we award for Small Businesses, Retail, Hospitality and Leisure, and Transitional Payments. We also get a S31 grant to compensate us for the fact that the government did not increase the business rates multiplier in line with inflation in 2022-23 and in prior years.

4.27 In addition to this, the Council retains a cost of collection allowance for the administration of the collection of business rates and for 2022/23, this allowance is **£0.593m**

4.28 The total resources 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 **£52.042m.** This can be itemised as follows:

Net rates yield retained by Hackney	38.209
2021/22 Deficit c/fwd.	-3.056
Cost of Collection allowance	0.593
Total NNDR Income for the Year	**35.746**
2022/3 Retail, Hospitality, Leisure (RHL) Reliefs S31 Grant	**6.175**
Government Deficit Contribution S31 Grant	**1.957**
Other S31 Grants	**8.163**
Total NDR resources	**52.042**

Council Tax Reduction Scheme (CTRS).

4.29 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. The Scrutiny

Panel Council Tax Reduction Scheme (CTRS) Task Force is currently looking at the operation of CTRS across London and will aim to report early in the new municipal year.

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 2022/23. Both of these are required by statute. Hackney's tax base for 2022/23 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 residents 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 2022/23 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 2022/23, the major part of which would need to be met from Hackney's 2023/24 Budget. This would impact adversely on the overall budget strategy.

7.2 The proposed tax base of £73,981 Band D equivalents would result in Council Tax income of £91,623m for Hackney's element, assuming no increase in the Council Tax in 2022/23. The overall resources for the 2022/23 budget will be dependent on the outcome of the Final Local Government Finance Settlement due to be announced in early February 2022, 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 2022/23 given the ongoing impact of the cyber attack, Covid-19 and Brexit.

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 26 January 2022.

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 93% 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

Appendix 2 - Localised Pooling Contribution (with Annex)

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