

Council Taxbase and Local Business Rates Income 2023/24	
<b>Title of Report</b>	Council Taxbase and Local Business Rates Income 2023/24
<b>For Consideration By</b>	Council
<b>Meeting Date</b>	3 January 2023
<b>Classification</b>	Open Report and Appendix
<b>Ward(s) Affected</b>	All
<b>Group Director</b>	Ian Williams, Group Director, Finance and Corporate Resources

**Reasons for Lateness:** The report was delayed because of the need to reflect the decision on the localised business rates pooling scheme which wasn't made until after publication date and challenges in preparing the business rates section of the report due to delays in the required software release.

## 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 2023/24 of 92.5%.
- 1.2 Members are also asked to agree the baseline level of Local Business Rate income the Council will be likely to receive for 2023/24.
- 1.3 On the basis of advice from London Councils and its advisers, the boroughs have unanimously agreed not to enter into a London Business Rates Retention and Pooling arrangement in 2023/24. However, we will be rejoining the localised Pooling arrangement we entered into last year. 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 2023-24 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 2023. This report recommends a Council Tax Base of £77,108.86 Band D equivalents based on a Council Tax collection rate for 2023/24 of 92.5%.

- 2.2 Section 3 of The Non-Domestic Rating (Rates Retention) Regulations 2013, requires that for 2023/24, 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 2023/24, subject to the completion of 2023/24 NNDR1 (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 2023/24 to be used in the budget and tax setting report before Council on 1st 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 2022/23 scheme for 2023/24 although we will reduce the claimant contribution to 10% for 2024/25 with a phased move to a zero contribution by 2030.
- 2.5 Members will be aware of the significant problems we have faced in both council tax and non-domestic rates collection arising from Covid-19 and the cyberattack. The lack of ICT systems for a lengthy period and the consequent backlog of work which arose from this, and the inability to carry out even low level recovery work significantly depressed collection levels in 2021-22 and 2022-23. However, the backlogs have now been cleared and normal account management processes are being restored and so we expect performance to move back towards pre Covid-19 and cyberattack levels in due course.
- 2.6 On a related matter, the November OFP which is also on this Agenda, contains a proposal to fully exempt foster carers who pay council tax in Hackney from paying the tax and a proposal to pay out of borough carers who foster Hackney children, a supplement of £10 per week. This will help us to retain existing carers and may lead to an increase in house provision over time. It must be remembered that the cost of in house carers is significantly less expensive than external carers. The policy is proposed to become effective on 1st April 2023.
- 2.7 It is a statutory requirement that the Council approves the CTRS scheme each year. No changes are proposed to the current scheme, although, subject to a consultation process, we plan to reduce the minimum claimant contribution to 10% in 2024/25 with a phased move to a zero contribution by 2030. The Council will also be providing additional financial support for CTRS claimants in 2023/24.

### **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 2023/24 shall be 77,108.86 Band D equivalent properties adjusted for non-collection. This represents an estimated collection rate of 92.5%.

**3.2 Recommend to Council that in accordance with The Non-Domestic Rating (Rates Retention) Regulations 2013 Hackney's non-domestic rating income for 2023/24 is £161,803,507 subject to completion of the 2023-24 NNDR1 return. This comprises three elements.**

- **£59,639,165 which is payable in agreed instalments to the Greater London Authority**
- **£48,972,654 which is retained by Hackney Council and included as part of its resources when calculating the 2023/24 Council Tax requirement.**
- **£53,191,688 which is payable in agreed instalments to Central Government**

**3.3 To note that no changes are proposed to the current CTRS scheme in 2023/24.**

**Council is recommended to agree:**

**3.4 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 2023/24 shall be 77,108.86 Band D equivalent properties adjusted for non-collection. This represents an estimated collection rate of 92.5%**

**3.5 In accordance with The Non-Domestic Rating (Rates Retention) Regulations 2013, Hackney's non-domestic rating income for 2023/24 is £161,803,507 subject to completion of the 2023-24 NNDR1 return. This comprises three elements.**

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**3.6 To note that no changes are proposed to the current CTRS scheme in 2023/24.**

## **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 9th December 2022.**

- 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), exemptions and the impact of applying regulations 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 collection rate for 2023/24. 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 but in 2020/21, 2021/22 and 2022/23 they were adversely affected by the Covid-19 pandemic and the cyber attack. The current forecast in-year collection rate for 2022-23 is 80%. Now that both the Council Tax and NNDR databases are up to date, the systems are fully operational and we have begun normal recovery action; we expect performance to improve such that the final collection rate will improve beyond this. Whilst we expect these improvements to also impact on the collection of bills raised for 2023-24, the collection rate will almost certainly be depressed by the cost of living crisis. It is very difficult to estimate what the actual rate will be given the impact of this on residents' ability to pay which make it, as 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 taxpayers. Notwithstanding this we believe a collection 92.5% is achievable and this has what we have assumed in the taxbase calculations
- 4.5 If actual collection in the forthcoming year exceeds the budgeted collection rate this could generate a surplus in the Collection Fund which would provide additional one-off resources available for use in 2024/25 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 2023/24, the major part of which would need to be met from Hackney's 2024/25 Budget.
- 4.6 A collection rate of 92.5% will result in a tax base of £77,108.86 Band D equivalents, as shown in the table below.

<b>2023/24 TAX BASE/COLLECTION RATE</b>	
	<b>2023/24</b>
Aggregate of Band D Equivalents Estimate of Collection	83,360.93
Rate	92.5%
<b>Tax Base (Band D Equivalents)</b>	<b>77,108.86</b>

- 4.7 This compares to a tax base of 73,981 Band D equivalents used in the 2022/23 budget setting.

### **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 our Business Rates Income (although this was offset by adjustments to other funding streams). 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 2020/21 to 2023/24 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, 2022/23 and 2023/24

- 4.13 However, given the way pools work, there was 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 and so we joined the localised pool in 2022/23 and rejoined the pool in 2023/24. Full details of the operation of this scheme were given in the October Overall Financial Position report which was presented to Cabinet in December 2022.

### **NNDR Estimates, Reliefs and Special Grants**

- 4.14 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 £21.167m 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 2023-24 and in prior years.

- 4.15 In addition to this, the Council retains a cost of collection allowance for the administration of the collection of business rates and for 2023-24 this allowance is £0.617m
- 4.16 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 an estimated £70.141m. This can be itemised as follows:

	<b>£m</b>
Net rates yield retained by Hackney	48.565
2022/23 Deficit c/fwd.	-0.208
Cost of Collection allowance	0.617
<b>Total NNDR Income for the Year</b>	<b>48.973</b>
2023/4 Retail, Hospitality, Leisure (RHL) Reliefs S31 Grant	6.732
Cost of Multiplier Cap - 2014-15 to 2023-24	8.273
Other S31 Grants	6.162
<b>Total NNDR resources</b>	<b>70.141</b>

- 4.17 These estimates take account of the 2022 property revaluation, which increased our total Rateable Value (RV) by 16.4%. Ratepayers this time around, especially those with large properties (i.e. properties with a RV of over £100,000) will receive significantly more support from Government than they did in 2017/18 when the previous revaluation was introduced. The table below shows the caps on increases arising from the revaluation

<b>Upwards Caps</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
Small (RV up to £20k or £28k in London)	5%	10%	25%
Medium (RV between £20k to £100k)	15%	25%	40%
Large (RV greater than £100k)	30%	40%	55%

So, a ratepayer in a large RV property, will pay 30% of the increase associated with the RV increase resulting from the revaluation in 2023-24, then 40% in 2024-25 and then 55% 2025-26. One important point is that the support only covers the impact of the revaluation on bills so if the business rates multiplier goes up by say 2% in 2024-25, then the financial impact of this will not be covered which is consistent with the scheme's aim of supporting the impact of revaluation only

- 4.18 It should be noted that at the time of writing this report, we are still in the process of completing the NNDR1 which we return to the Government. The figures included within this report and recommendations are therefore based on officers' latest estimates of the figures to be included in NNDR1 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.

### **Council Tax Reduction Scheme (CTRS).**

- 4.19 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, although, subject to a consultation process, we plan to reduce the minimum claimant contribution to 10% in 2024/25 with a phased move to a zero contribution by 2030.

## **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 2023/24. Both of these are required by statute. Hackney's tax base for 2023/24 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 2023. 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 2023/24 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 2023/24, the major part of which would need to be met from Hackney's 2024/25 Budget. This would impact adversely on the overall budget strategy.

7.2 The proposed tax base of £77,108.86 Band D equivalents would result in Council Tax income of £98.352m for Hackney's element, assuming no increase in the Council Tax in 2023/24. The overall resources for the 2023/24 budget will be dependent on the outcome of the Final Local Government Finance Settlement due to be announced in early February 2023, 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 and the Government 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 2023/24 given the ongoing impact of the cost of living crisis.

## **8. Comments of the Director of Legal, Democratic and Electoral 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 must be taken by 31 January in each year and therefore this report will be considered by Council on 25 January 2023
- 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 92.5% 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

### **Exempt Appendices**

None

### **Background Papers**

None

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