

Body: Cabinet

Date: 9th December 2015

Subject: Council Tax Base and Business Rate Income 2016/17

Report Of: Chief Finance Officer

Ward(s) All

Purpose To approve the Council Tax Base and net yield from Business Rate Income for 2016/17 in accordance with the Local Government Finance Act 1992, as amended.

Decision Type: Key Decision

Recommendations: Members are asked to

- i) Agree the provisional Council Tax Base of **33,606.10** for 2016/17.
- ii) Agree the provisional Retained Business Rates Income of £3.947m for 2016/17.
- iii) Agree that the Chief Finance Officer, in consultation with the Portfolio Holder for Finance, determine the final amounts for the Council Tax Base and Retained Business Rates income for 2016/17.

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1.0 Introduction

- 1.1 The Council is required to set its Council Tax Base and the expected Business Rate Income for the forthcoming year. These calculations are used as the basis for the amount of income the Council will precept from the Collection Fund.
- 1.2 The Local Authorities (Calculation of Council Tax Base) Regulations 1992 prescribe that the billing authority (this council) must supply the precepting authorities (the County, Police and Fire authorities) with the calculation of the Council Tax Base. This information must be supplied between 1 December and 31 January in the financial year proceeding the financial year for which the calculation is being made.
- 1.3 Non-Domestic Rating (Rates Retention) Regulations 2013 also sets out a timetable for informing the government and precepting authorities of the business rate income calculation. This information is completed via a government return (NNDR1) which must be submitted by 31 January in the financial year proceeding the financial year for which the calculation is being made.

1.4 In order to assist the precepting authorities with their financial planning it is helpful to provide the information during December rather than wait for the January deadline.

2.0 Council Tax Base

2.1 The Council Tax Base is the estimated full year equivalent number of chargeable dwellings. This is expressed as the equivalent number of Band D dwellings with two or more liable adults.

2.2 In making this estimate, account must be taken of discounts, disablement relief and property exemptions. Movements on and off the Valuation List during the year must also be taken into account – e.g. where new properties have been built or old ones converted or demolished.

2.3 The primary legislation that determines how the Council Tax Base is to be calculated is the Local Government Finance Act 1992. A number of regulations have been laid under this Act that has prescribed how the detailed calculation is to be made. Those regulations are listed at the foot of this report.

2.4 The basic calculation as determined by the primary legislation is that the Council arrives at its Council Tax Base by multiplying its Relevant Amount by its estimated Collection Rate.

3.0 Relevant Amount

3.1 The Relevant Amount for each Band is the estimated full year equivalent number of chargeable dwellings in the Band expressed as the equivalent number of Band D dwellings. For example, a Band A property is equivalent to 6/9 of a Band D property, a Band H property is equivalent to 2 times (18/9) a Band D property. The Relevant Amounts for each Band are then added together to arrive at the overall Band D equivalent.

3.2 The results for each Band when totalled up are converted to form the appropriate number of Band D equivalent dwellings. This is the Relevant Amount. For 2016/17 this totals 34,556.4 equivalent properties

3.3 The Relevant Amount has increased by 1,248 properties (3.75%) Band D equivalent dwellings from 2015/16. This reflects expected growth in the number of taxable properties of 102 plus the effect of the changes to the Local Council Tax Reduction Scheme (LCTRS) agreed by the Council on 18 November 2015. The effect of these changes has resulted in an increase to the total number of chargeable dwellings of 1,615.

4.0 Collection Rate

4.1 The Collection Rate is the Council's estimate of the proportion of the overall Council Tax collectable for 2016/17 that will ultimately be collected. This is expressed as a percentage.

- 4.2 The key elements in making this calculation are losses on collection, appeals against valuation, changes in circumstances (e.g. applications for discounts in respect of single person occupancy or disability) and other adjustments. These other adjustments to bills can arise for a variety of reasons including bankruptcy, death and exemption where premises are unoccupied for reasons allowed by the Exempt Dwellings Order. The Council must also make provision for uncollectable debts.

The approved change to the LCTRS limiting the total amount of discount to 80% of the claimant's council tax liability is likely to have an impact on the Council tax collection rate, as all claimants will have to pay part of their Council Tax. Two scenarios were modelled based on 0.25% and 0.75% resulting in a loss on collection of £134,560 and £403,680 respectively.

- 4.3 The current level of council tax collection is forecast to show a surplus balance at the end of 2015/16, and this would indicate that the current collection rate of 97.75% would be adequate going forward, however after taking into account the impact of the LCTRS it is considered that the collection rate should be decreased to 97.25% for 2016/17, a decrease of 0.5% over 2015/16.

5.0 Council Tax Base

- 5.1 Taking the Relevant Amount of 34,556.4 and applying the Collection Rate of 97.25% produces a Council Tax Base for 2016/17 of **33,606.1**.

- 5.2 The Council Tax Base has increased by 3.22% compared with 2015/16. This is equivalent to an increase of 1,047 Band D dwellings. The detailed number of properties is shown at Appendix 1.

- 5.3 The Council's Medium Term Financial Plan is updated annually to take account of movements in the Council Tax Base. The assumed tax base for the current MTFS was 32,969.

6.0 BUSINESS RATE INCOME

- 6.1 The Local Government Finance Act 2012 introduced a new system for the local retention of business rates. This means that the council is required to formally approve the expected business rate income for the forthcoming year. The estimate for the 2016/17 financial year must be approved by 31 January 2016.

- 6.2 The Business Rate income is all collated on the NNDR1 form which will show the net rate income yield for the forthcoming year and the central and local shares of the business rates. The actual NNDR1 form for 2016/17 has not yet been received but the provisional figures based on the 2015/16 form plus known changes have been calculated as follows:

Retained Business Rate	2016/17 Estimate £'000
Gross Rates Yield	39,911
Less Mandatory and Discretionary Reliefs	(4,624)
GROSS RATE YIELD AFTER RELIEFS	35,287
Less Allowance for cost of Collection	(126)
Adjustments for Changes in RV due to growth or reduction in property numbers.	(145)
Less Estimated Losses on Collection	(150)
Less Allowance for Appeals	(177)
NET BUSINESS RATE YIELD	34,690

The adjustment for the changes in RV includes the properties that are to be demolished as part of the Town Centre redevelopment, however once the redevelopment work has been completed there will be a corresponding growth in the business rate yield.

6.3 The net business rate yield is allocated centrally and locally based on the following ratios:

- 50% to Central Government
- 40% to the Local Billing Authority (this council)
- 10% to the other precepting authorities (9% to the county and 1% to the fire authority)

The local share (the Business Rate baseline) is then payable to the Council's general fund. All other adjustments to the overall level of business rate income retained locally are then accounted for within the general fund.

7.0 Retained Business Rates income in the General Fund

7.1 As some local authorities collect more business rates than they currently receive in formula grant (which is based on relative need and resources), whilst others are lower, the government will rebalance to ensure that no local authority is worse off as a result of its business rates at the outset of the scheme through a system of tariffs and top ups. To calculate these tariffs and top ups a business rate baseline funding level has been set by government based on the 2012/13 formula grant funding levels. An authority will pay a tariff if their business rate baseline is more than their baseline funding level and receive a top up if their business rate baseline is less than their baseline funding level. Tariff and top ups will be self funding and fixed in real terms (i.e. only up rated by RPI) in future years, ensuring that changes in retained income are driven by business rate growth.

This authority has a business rate baseline higher than its baseline funding level and thus is due to make a tariff payment.

7.2 The intention of the Rates Retention scheme is to give an incentive to local authorities to grow their business rate base, and the scheme has been

devised to allow local authorities to benefit from this growth. However due to the gearing effect, i.e. the differences in the relationship between an individual authority's business rates base and its baseline funding level, some authorities with existing large tax bases in relation to their funding levels will experience increases in their income that is out of proportion to the growth in their business rate base. To moderate this gearing effect a system of levies and safety nets has been introduced.

The levy rate will allow authorities to retain their growth in an equivalent proportion to its baseline revenue. This translates into a real benefit and after the payment of the central share and the levy at least 20p in each extra pound will be retained locally.

Conversely a safety net will apply to any authority experiencing a decrease in their business rates revenue. This safety net guarantees authorities 92.5% of their original baseline funding. For the purpose of the safety net the baseline funding level will be increased by RPI each year.

- 7.3 The estimated amount of retained business rates to be credited to the general fund is calculated as follows:

2016/17 Estimate	£'000
EBC share of Business Rate Yield	14,457
Minus Tariff	(10,119)
Minus Levy	(499)
Minus Estimated Deficit on Collection fund As at 31.3.16	(685)
Add Section 31 Grants	792
Local Retained Business Rate Income 2016/17	3,947
2015/16 Amount	4,024

These figures will be confirmed once the final NNDR1 has been completed in January and the government grant settlement figures received later this month.

8.0 Setting the Business Rate Income

- 8.1 The figures required to set the business rate income are not yet available as the final NNDR1 form and guidance notes have not yet been received from DCLG. Cabinet is therefore asked that delegated authority be given to the Chief Financial Officer, in consultation with the Portfolio Holder for Finance, to determine the final estimated net yield from Business Rate Income for 2016/17.
- 8.2 The revenue implication of the new Business Rates retention scheme has been modelled into the financial plan and will be fully reflected in the budget setting process.

9.0 Business Rates Pooling

- 9.1 The council is working within a business rate pool with the other East Sussex Borough and District Councils, East Sussex County Council and East Sussex

Fire Authority.

- 9.2 Under pooling, the levy as set out in para 7.2 will be payable to the pool rather than to DCLG, and redistributed to participating authorities in accordance with the agreed memorandum of understanding. This is to be used to fund economic development.
- 9.3 The first half year monitoring of the pool is showing that overall the forecast levy payments across all authorities is £1.321m (down £938,000 from the original NNDR1 figures supplied in January). This reduction is due to all billing authorities except Wealden forecasting lower net rates payable than predicted, the significant impact on forecast appeals provisions arising from appeals by GP Surgeries affected by the valuation tribunal decision and the large number of appeals lodged at the end of March 2015. Eastbourne's share of the pool is expected to be £49,000 (£236,000 forecast in January).
- 9.4 DCLG have been informed of the intention to continue with the pool in 2016/17, subject to any matters arising from the provisional local government finance settlement.

10.0 Collection Fund Performance

- 10.1 As at 31 March 2015 the Collection fund showed a deficit of £1,342,171 (£447,357 Council Tax surplus and £1,789,529 Business Rates). £1,115,817 is being recovered across Council Tax and Business Rates preceptors during 2015/16, leaving a balance of £226,354 to be distributed in 2016/17.
- 10.2 The Council has to estimate the overall surplus/deficit at 31 March 2016 and inform the precepting authorities in January 2016 of this estimate in order that the amount is included in the 2016/17 precept figures.
- 10.3 Current monitoring figures indicate a surplus by 31 March 2016 of £662,553 for Council Tax, this will be revised in January and the results reported to members as part of the budget report to the February Cabinet. Any surplus or deficit is allocated to preceptors in 2016/17 in proportion to the 2015/16 Band D Council Tax.
- 10.4 The calculation on the business rate income element of the Collection Fund currently indicates a deficit balance of £1,711,700 as a result of a bigger than anticipated provision required for outstanding appeals, due to the extra number of appeals received as a result of the Government's deadline for backdating appeals to those received by 31.3.15. Over 100 appeals were receive by the Valuation Office during the last few days of March 2015 with a total rateable value of £10m. The calculation will be revised for January and the results reported to members as part of the budget report to the February Cabinet. Any surplus or deficit is allocated in 2016/17 in accordance with the proportions given at 6.3 above.

10.0 Consultation

- 10.1 Not Applicable

11.0 Implications

- 11.1 The Council Tax Base will be used to calculate the level of Council Tax requirement that will be recommended to the Council on 17 February 2016.
- 11.2 The net yield from Business Rates income will be used to calculate the amount of retained business rates to be credited to the General Fund.
- 11.3 Once the Council Tax Base and the estimated balance on the Council Tax element of the Collection Fund has been determined, East Sussex County Council, Sussex Police and Crime Commissioner and East Sussex Fire Authority will be notified.
- 11.4 Once the NNDR1 2016/17 has been completed and the estimated balance on the Business Rate element of the Collection Fund has been determined, this will be submitted to Central Government and both East Sussex County Council and East Sussex Fire Authority will be notified.
- 12.0 **Summary**
- 12.1 The provisional Council Tax Base for 2016/17 has been calculated in accordance with relevant legislation. Summary calculations are set out within the attached appendix.
- 12.2 The figures required to set the business rate income are not yet available as the final NNDR1 form and guidance notes have not yet been received from DCLG. Provisional figures indicated business rates income for the General Fund of £3,947m.
- 12.3 It is recommended that delegated authority be given to the Chief Finance Officer, in consultation with the Portfolio holder for Finance, to agree the final figures for both calculations.

Pauline Adams
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Background Papers:

The Background Papers used in compiling this report were as follows:

The Local Government Finance Act 1992

The Local Authorities (Calculation of Council Tax Base) Regulations 1992

The Local Authorities (Calculation of Council Tax Base) (Amendment) Regulations 2003

Non-Domestic Rating (Rates Retention) Regulations 2013