

COUNCIL TAX BASE AND BUSINESS RATES FORECAST 2016/17

Reporting Officer: Corporate Director of Finance

SUMMARY

This report sets out the proposed Council Tax Base and Business Rates Forecast for 2016/17 in accordance with legislation. Council is required to calculate both its Council Tax Base as at 30 November 2015 by 31 January 2016 and the Business Rates forecast by 31 January 2016. The report is also asking for approval for amendments to the Council Tax Reduction Scheme, effective from 1 April 2016.

RECOMMENDATIONS: That

- a) **the report of the Corporate Director of Finance for the calculation of the Council Tax Base and the Business Rates Forecast, be approved;**
- b) **in accordance with the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, the amount calculated by the London Borough of Hillingdon as its Council tax Base for 2016/17 shall be 95,770.**
- c) **the Corporate Director of Finance be authorised to submit the 2016/17 NNDR1 return to the Department of Communities & Local Government (CLG) and the Greater London Authority (GLA) in line with the business rates forecast contained within this report.**
- d) **the amended Council Tax Reduction Scheme for 2016/17 be approved with the following changes to be effective from 1 April 2016:**
 - **the maximum amount of reduction a working age household can receive is reduced to 75% of the council tax liability from 80%;**
 - **the maximum amount of reduction a vulnerable household can receive is reduced to 90% of the council tax liability from 100%; and**
 - **align the scheme with recent and impending welfare reforms, including changes to Housing Benefit.**

COUNCIL TAX BASE

The calculation of the Council Tax Base is prescribed under the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012 and represents the equivalent number of Band D Properties within the Borough. The calculation of the Council Tax Base is based upon the following formula:

$$\mathbf{((H-Q+E+J)-Z) \times (F \text{ divided by } G)}$$

Where:

H is the number of chargeable dwellings for the band on the relevant day less the number of exempt dwellings on that day;

Q is a factor to take account of the discounts to which the amount of council tax payable was subject on the relevant day;

E is a factor to take account of premiums, if any, to which the council tax payable, was subject on the relevant day;

J is the amount of any adjustment in respect of changes in the number of chargeable dwelling or premiums calculated by the authority;

Z is the total amount that the authority estimates will be applied as a result of the introduction of the Council Tax Reduction Scheme expressed as an equivalent number of chargeable dwellings in that band;

F is the number appropriate to that band which is used in determining the Band D equivalent (i.e. Band A =6, Band B = 7, Band C =8, Band D = 9, Band E = 11. Band F = 13, Band G = 15 and Band H = 18;

G is the number applicable to Band D i.e. 9.

Table 1 sets out a summary of the Council Tax Base for 2016/17 including the estimated collection rate and allowance made for contributions in lieu of Council Tax in respect of Forces Barracks and Married Quarters. The detailed calculation is set out in Appendix A to this report.

Table 1 Total Number of Band D equivalent properties.	
Band	Number of properties
A	422
B	2,837
C	15,706
D	37,236
E	19,552
F	12,679
G	7,275
H	807
Total	96,514
Equivalent number adjusted for the estimated collection rate (98.5%)	-1,448
Plus the contribution in Lieu of Council Tax in respect of Forces Barracks and Married Quarters	704
Council Tax Base for 2016/17	95,770

CHANGES IN COUNCIL TAX BASE SINCE 2015/16

In calculating the Council Tax Base for 2016/17 the authority has to estimate the various changes that will occur during the financial year, which result in an increase of 4,570 Band D Equivalent Properties to the 95,770 outlined in Table 1 above. This movement consists of: 1,760 increase due to new development in the borough and projected changes to the number eligible for discounts, exemptions and reductions; 911 increase from proposed changes to the Council Tax Reduction scheme

discussed below; 950 from proposed changes to Council Tax Discounts also discussed below; 500 from the review of collection rates and 449 increase from reviewing eligibility for Single Person Discount.

Council Tax Reduction Scheme

The local Council Tax Reduction (CTR) Scheme was first approved by Council on 17 January 2013 for an initial two year period from April 2013 until March 2015 to award localised council tax support for those residents who the council considers to be in financial need. Council subsequently approved an extension of the original Scheme for 2015/16.

The CTR Scheme established by the Council in 2013/14 was designed to be contained within the £15,605k funding envelope available at the time, minimising the impact of Government policy changes on resources to fund local services. The level of support for the scheme is no longer explicitly identified within the Local Government Finance Settlement and therefore is assumed effectively to be falling in line with the overall grant award. Since the implementation of the scheme, funding for the scheme through retained Business Rates and the Revenue Support Grant has declined at a faster rate than the eligibility for the scheme with the funding gap for the London Borough of Hillingdon projected at £1,679k in 2016/17 (equivalent to 1,509 Band D equivalent properties).

In light of these on-going reductions in government funding for the local CTR Scheme, the Council has reviewed options available in managing this gap:

- Raising Council Tax
- Reducing Other Service Provision
- Reducing CTR Scheme Provision
- Use of Capital Reserves

The options of increasing general Council Tax and cutting other services have been disregarded as these would simply transfer the cost of financing the CTR Scheme from national taxation to local taxation, with the Government policy of capping Council Tax increases providing an additional disincentive to raising Council Tax. The use of Capital Reserves to support recurrent expenditure would only represent a time limited option as such reserves represent a finite resource, and would therefore appear contrary to the Council's statutory obligation to set a balanced budget.

In contrast, reducing CTR Scheme provision to reflect declining Government support for the scheme would reflect national Government's stated intention of reducing welfare payments and contribute towards the broader deficit reduction agenda without adversely impacting upon either the cost or quality of other Council Taxpayer funded services.

Additionally a review of the scheme over the first three years of its operation has shown that collection rates have not fallen as expected. It was assumed that there would be difficulty in collecting and enforcing the payment of the tax from residents who previously paid no Council Tax and resulting in the estimated collection rate for the year 2013/14 and subsequent years was being reduced from 98.7% to 98%. However, a review of the collection performance over the last three financial years

has shown that actual collection rates have exceeded the agreed collection target, with 2014/15 being a record year, and it is therefore proposed to increase the collection rate from 98% to 98.5% for 2016/17. This change increases the forecast income to the Collection Fund by £556k (Band D equivalent properties increase by 500).

Proposals to amend the current CTR Scheme and minimise the funding gap for 2016/17 have been subject to public consultation, with the principal recommendations to reduce the maximum reduction for working age households from 80% to 75% and vulnerable households from 100% to 90%. If approved, this revised scheme would reduce the annual cost of the scheme by 911 Band D Equivalent properties and substantially reduce the funding gap.

Consultation with residents on the proposed changes to the CTR scheme was undertaken in November and early December and the results of the consultation show that the majority of respondents to the consultation agreed with the proposals in the revised scheme for 2016/17. The results of the consultation and the Equality Impact Assessment (EIA) on the changes are published on the Council's web site and the EIA is also attached to this report for Member's information (Appendix B).

Council Tax Discounts

As part of the development of the Council's budget for 2016/17, there has been a review of other discounts and exemptions under the powers granted from April 2013, which coincided with the abolition of Council Tax Benefit. The draft budget report proposes that from 1 April 2016 the existing Class B 25% discount available indefinitely on furnished empty properties will be abolished. Class C and D discounts on properties undergoing repair or major structural alteration will be scaled back from the current 6 month and 1 year time limits to a maximum of 21 days. These changes are expected to reduce the cost of such discounts borne by other Council Taxpayers by the equivalent of 950 Band D Properties and so have been built into the calculation of the Council Tax base.

In addition, targeted work by the Corporate Fraud Team on reviewing eligibility for Single Person Discount (SPD) is expected to reduce the numbers claiming by approximately 2,000 from the previously budgeted 30,634 cases. Progress to 30 November 2015 identified 642 cases, with on-going work expected to reduce the cost of the discount borne by other Council Taxpayers by approximately 1,358 cases or further 449 Band D Equivalent Properties.

Estimated Collection Rate

It is a requirement of the Council Tax legislation for the Council to make an estimate of its collection rate in determining the Council Tax Base. The estimated collection rate is reviewed each year taking account of actual collection trends both in year and over a period of time. The estimated collection rate was reduced in 2013/14 from 98.7% to 98% to reflect the forecast increased difficulty of collecting and enforcing the payment of the tax following the introduction of the CTR scheme. However, as discussed above actual collection rates over the last three years have exceeded target, with a record breaking year in 2014/15, and therefore it is proposed to

increase the collection rate from 98% to 98.5% for 2016/17. This change increases the base by 500. Actual collection rates against the forecast will continue to be monitored throughout the year.

Impact on 2016/17 General Fund Budget

The actual impact upon the General Fund budget for 2016/17 of the new Council Tax base is an increase of 4,570 Band D equivalents properties generating £5,086k in additional funding for the General Fund in 2016/17 compared to 2015/16. This position represents an improvement of £556k in General Fund funding on the draft budget approved by Cabinet on 17 December 2015.

Section 106 of the Local Government Finance Act 1992

It is noted that this report falls within the provisions of the Local Government Finance Act 1992. Any member who is two or more months in arrears with his/her Council Tax must declare the fact and not vote on the recommendations in this report.

BUSINESS RATES INCOME FORECAST

The Local Government Finance Act 2012 introduced a mechanism whereby Councils will retain a proportion of business rates as a revenue funding stream and as a result, the business rates income forecast for 2016/17 has a direct impact upon the Council's finances and is therefore submitted to Council for approval alongside the Council Tax Base.

The Business Rates Income forecast for 2016/17 has been derived from the rateable values shown on the Council's local rating list as at 30 November, adjusted for expected growth in the base to 31 March 2016. Following allowance for the current levels of both mandatory and discretionary reliefs, the Council anticipates a gross yield of £383,703k.

As a number of new reliefs have been introduced by Government since the introduction of the Business Rate Retention System, for which the Council and other preceptors receive government funding in lieu of forgone income. An additional £3,108k income is projected with regard to the doubling of small business rate relief and support for small businesses.

This gross yield has been adjusted to provide £1,919k for losses in collection, representing a collection rate of 99.5% and £2,000k against appeals currently outstanding with the Valuation Office. The Council will retain £598k to cover the costs of administration and collection, resulting in forecast a net yield of £379,186k from business rates within the borough in 2016/17.

The Local Government Act 2012 permits the retention of 50% of revenues nationally within the local government sector. As a London Borough, 20% of income is passported to the GLA while 30%, £114,688k, is notionally retained by Hillingdon however this sum is then adjusted downwards by the £60,769k tariff to reflect historic levels of central government funding.

The remaining £53,919k of income is separated into the £43,201k baseline level of funding, as determined by central government and £10,718k growth, which is subject to a levy of 50%. After taking account of this levy, the Council retains £48,560k of business rate income, including £5,359k of growth.

The Council is required to submit a certified NNDR1 return, containing a more detailed analysis of this business rates forecast, to both DCLG and GLA by 31 January 2014. A recommendation to delegate authority to the Corporate Director of Finance to submit this return is included in this report.

Impact on 2016/17 General Fund Budget

The £48,560k income retained by the Council will be reflected in the budget presented to Cabinet for approval in February 2016, an increase of £1,105k from 2015/16. £762k of this increase represents the retained growth arising from the new developments in the borough and is available to support local services. The remaining £343k represents the 0.8% uplift in business rates, the proceeds of which are retained by central government through a topslice on the Council's Revenue Support Grant. This position remains consistent with the draft budget approved by Cabinet on 17 December 2015.

Financial Implications

The forecasts outlined in this report for both Council Tax and NNDR revenues in 2016/17 were included within the draft budget published for public consultation in December 2015. Income collected during 2016/17 will be closely monitored and any variation from the projections outlined above captured through the Medium Term Financial Forecast process.

Legal Implications

In relation to recommendations 1 - 3 the Borough Solicitor confirms that the legal implications are contained within the body of the report.

With regard to recommendation 4 the Borough Solicitor advises as follows:

Section 13 A of the Local Government Finance Act 1992 requires the Council to maintain a Council Tax Reduction (CTR) Scheme for eligible Hillingdon residents. The Scheme must comply with the Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012 and, before revising its scheme, the Council is required to undertake a consultation in accordance with Schedule 1A to the Act. The 2012 Regulations confer an entitlement on qualifying pensioner households to a 100% reduction in their Council Tax, with the Council having discretion as to the level of reduction to be given to other categories of qualifying applicants.

Full details of the consultation that has been undertaken and the responses received are contained in Appendix 1 to the Report. The Council must consider the outcome of this consultation and take this into account in deciding whether to implement the proposed changes.

As stated in the report, the changes to the CTR Scheme are proposed in order to reduce the shortfall in funding faced by the Council. These changes include reducing the length of time for which certain discounts are available, increased Fraud Prevention work and by increasing the collection rate. The remainder of the gap will be recouped by the Council reducing the entitlement of non- pensioner households applicants, including applicants in receipt of disability benefits.

The majority of respondents to the Consultation agreed with the Council's proposals, although many respondents disagreed with the proposal to reduce the entitlement of residents in receipt of disability benefits. In particular, the Z 2K Trust strongly objected to these proposals.

The Council is required to discharge its Public Sector Equality Duty under section 149 of the Equality Act 2010. This requires the Council to have due regard to the effect that a reduction in entitlement under the CTR Scheme will have on residents with protected characteristics and to consider whether to take any steps to alleviate these adverse effects. In this regard a full Equalities Impact Assessment (EIA) has been undertaken and appears at Appendix B. This shows that the proposed reduction in entitlement will have adverse effects on women and persons with a disability.

It is inevitable that any reduction in entitlement under the Scheme will have an adverse impact on affected residents. The only way to eliminate this impact would be for the Council to divert sufficient monies from another budget to make up the shortfall in funding. However, a transfer of monies from another budget would result in other residents experiencing a reduction in their services. Therefore, if the Council wished to make up the shortfall in funding it would have to undertake a further EIA to satisfy itself that this course of action was appropriate.

Further, in November 2015, the High Court considered a legal challenge to changes made to the CTR Scheme of the London Borough of Havering. One of these changes was to reduce the entitlement of disabled applicants to a maximum of 85%. This was challenged on the basis that it constituted disability discrimination.

The High Court dismissed this challenge. It held that the prohibition on discrimination did not confer any protected status on applicants with a disability; the only applicants given protected status under the legislation are pensioner - households.

Given that the Council does not propose to change the entitlement of pensioner - households, the Borough Solicitor advises that the proposed changes to Hillingdon's CTR Scheme are lawful.

Background Papers: None