

**Manchester City Council
Report for Resolution**

Report to: Resources and Governance Scrutiny Committee – 8 December 2016

Subject: Setting of the Council Tax Base and Business Rates Shares for Budget Setting Purposes.

Report of: The City Treasurer

Summary

To advise on the method of calculating the City Council's Council Tax base for tax setting purposes and Business Rates income for budget setting purposes for the 2017/18 financial year, together with the timing of related payments and the decision on pool membership. The Chair of the Committee will be requested to exempt the various key decisions from call in.

Recommendations

Members are asked to:

1. Note that the City Treasurer, in consultation with the Executive Member for Finance and Human Resources has delegated powers to set the Council Tax base for tax setting purposes in accordance with the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2013.
2. Note that the City Treasurer, in consultation with the Executive Member for Finance and Human Resources has delegated powers to calculate the Business Rates income for budget setting purposes in accordance with the Non-Domestic Rating (Rates Retention) Regulations.
3. Note that the City Treasurer, in consultation with the Executive Member for Finance and Human Resources has delegated powers to agree the estimated council tax surplus or deficit for 2016/17.
4. Note that the City Treasurer, in consultation with the Executive Member for Finance and Human Resources has delegated powers to agree the estimated business rates surplus or deficit for 2016/17.
5. Note that the City Treasurer, in consultation with the Executive Member for Finance and Human Resources has delegated powers to determine whether the Council should be part of a business rate pooling arrangements with other local authorities.

6. Note that the City Treasurer, in consultation with the Executive Member for Finance and Human Resources has delegated powers to set the dates of precept payments to the Police and Crime Commissioner and the Fire and Rescue Authority.
 7. Note that the Chair of the Scrutiny Committee will be requested to exempt the various key decisions from the call in procedures.
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Wards affected: All

Financial consequences for the revenue budget

The Council Tax base calculation informs the overall resolutions for the proposed Revenue Budget and any consequent Council Tax increase for the City. The Business Rates calculation informs the overall resolutions for the proposed Revenue Budget.

Financial consequences for the capital budget:

There are no direct consequences for the Capital Budget.

Contact Officer:

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012
The Non Domestic Rating (Rates Retention) Regulations 2013

Introduction to Setting of Council Tax Base

1. Section 31B of the Local Government Finance Act 1992, the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, and amendments introduced by the Local Government Finance Act 2012, require the Council to calculate its tax base for tax setting purposes. This calculation has to be based on data available at 30 November 2016 and the decision must be made between 1 December 2016 and 15 January 2017. The City Council has to notify the precepting authorities of its calculation for 2017/18 by 15 January 2017.
2. If the calculation has not been agreed by the 15 January 2017 the regulations provide that the responsibility for calculating the council's tax base transfers to the precepting authorities. They must calculate the tax base on behalf of the City Council, and themselves, on the basis of all the information available. This information will include any recommendations of the City Treasurer; it will also include any amount calculated by the Secretary of State for the purposes of distribution of Revenue Support Grant.

Basis of Calculation of Tax Base

3. The calculation of the amount of the council tax base is, in essence, the number of dwellings in an area belonging to each valuation band, modified to take account of the proportion applying to dwellings in each band. This is then adjusted to take account of discounts for disabled occupants, single occupiers and students, increases due to the application of the empty homes premium reduced amounts payable for exempt dwellings as well as reductions in accordance with the council tax reductions scheme. This is further adjusted by the proportion of the council tax for the year which the Council expects to be able to collect.
4. The adjusted numbers of properties in each of the eight valuation bands A to H are expressed as numbers of band D equivalents so they may be added to produce a single figure (e.g. $A = 0.6667D$; $H = 2D$).
5. The statutory timescale for undertaking the tax base calculation means that the tax base calculation for 2017/18 is based on information that will be more than three months out of date at the time that the bills are issued. Whilst this would not be a problem for most authorities the fluctuating numbers of students and the high turnover of population in Manchester make it difficult to predict how many properties will be exempt, empty or occupied by a single person etc. on 1 April 2017 and during the following financial year. This is made more difficult with the inclusion of the Council Tax Support Scheme within the calculation. The figures on which the tax base will be calculated will represent a 'best estimate'.
6. Prior to the introduction of the Council Tax Support Scheme on 1 April 2013 council tax benefit was classed as income within the Collection Fund and had no effect on the council tax base calculation. The council tax base calculation now takes account of an estimate of the amount of council tax reductions granted.
7. The Council Tax Support Scheme, sets the maximum level of council tax support for working age households at 85% of council tax due. The Council is currently

consulting on three options for 2017/18 which will reduce this percentage to save around £2 million from April 2017.

8. The tax base calculation will incorporate assumptions about the potential changes in the following, between 30 November 2016 and 31 March 2018:
 - * New properties
 - * Properties that are demolished
 - * Exempt properties (including all-student households)
 - * Disabled Relief
 - * Single Person Discounts
 - * Empty properties
 - * Council tax support scheme claimants.
9. The council tax base for 2016/17 was estimated at 105,570 band D equivalents. For 2017/18 the budget planning assumption is that the council tax base will increase which will generate increased revenue for the council. This will be by virtue of an increase in the band D equivalent number of properties. These assumptions will be validated when the tax base is recalculated.
10. Because the calculation uses information to November, the calculation is finalised during December to support the key decision required. Due to the requirement to notify precepting authorities by 15 January there will be a request to the Committee Chair to exempt the decision from call in. The City Treasurer, in consultation with the Executive Member for Finance and Human Resources has delegated powers to set the tax base for tax setting purposes.

Basis of Calculation of Business Rates Base

11. The Local Government Resource Review (LGRR), which came into force on 1 April 2013 resulted in significant changes to the methodology for funding local government. National Non Domestic Rates were previously collected by local authorities and paid over to Central Government. By law, Government is obliged to use business rates to fund local authorities so NNDR was used to fund Formula Grant, alongside Revenue Support Grant (RSG). Formula Grant distributed funding to local authorities on the basis of their assessed need, and as such there was no direct link between the business rates collected within a local authority area and the funding they received. Further, the risk of any reduction in local NNDR yield due to closure of businesses or appeals against rateable values lay with Central Government, and similarly they benefitted from any increase in local NNDR yield.
12. Due to the reforms brought forward as part of the LGRR, from 1 April 2013 those risks and benefits were shared between the Councils and Central Government. Each local authority retained an element of the business rates they collect, including an element of any growth in the business rates collected above an assumed baseline level. The retained business rates income was subject to a safety net and local authorities were protected at 92.5% of their base line funding which compares assumed NNDR income and any top up payments. This change

in funding brought a higher level of uncertainty in Council resources and had implications for how the budget is set.

13. The starting point for the calculation is the estimate of gross business rates payable by business ratepayers in 2017/18. This includes an estimate in the change in rates payable due to businesses added to or removed from the rating list during the year. This is adjusted by the estimated cost of mandatory reliefs in 2017/18 including the net cost of small business rate relief and costs of reliefs to charities, community and amateur sports clubs, partly occupied premises and empty premises. It is further adjusted by discretionary reliefs including the cost of relief to charities, non profit making bodies and reliefs funded by a Section 31 grant. This gross rate yield after reliefs is then reduced by the estimate of losses in collection and the allowance for the costs of collection.
14. In addition estimates are made for the effect of appeals against rateable values effecting income due up to 31 March 2018.
15. In estimating business rates growth potential additions and removals to the rating list will be looked at for the financial year. This will include intelligence gleaned from planning applications. The effect of appeals on the rating list will be a best estimate using known outstanding appeals, an estimate of future appeals expected to be received effecting 2017/18 income, any knock on effects of known appeals and percentage rates based on the effects of the settlements of historic appeals. Changes in the rating list for the enterprise zone are considered separately.
16. This calculation results in an estimate of the final business rate yield. Since 2013/14 50% of this was paid to Central Government, 1% was paid to Greater Manchester Fire and Rescue Authority and 49% retained by the Council. The exception to this split related to any growth in business rates within the enterprise zone, the full effect of which is retained by the Council for economic development. From 2017/18 Manchester will be part of a new Greater Manchester business rates retention pilot which means that 99% of yield will be retained by the Council and 1% paid to the Greater Manchester Fire and Rescue Authority.
17. The Non-Domestic Rating (Rates Retention) Regulations require that the Council estimates the the shares of business rate income for 2017/18 and notifiys Central Government and the Fire and Rescue Authority of these amounts by 31 January 2017.
18. Due to the requirement to notify Central Government and the Fire and Rescue Authotity by 31 January there will be a request to the Committee Chair to exempt the decision from call in. The City Treasurer, in consultation with the Executive Member for Finance and Human Resources has delegated powers to estimate the business rates shares for budgeting setting purposes.

Council Tax Surplus / Deficit

19. Billing authorities are required under section 31A of The Local Government Finance Act 1992 to estimate any surplus/deficit on their collection fund for the year relating to council taxes. Any such estimated surplus or deficit is shared between the billing authority and its major precepting authorities
20. The City Council has to notify the precepting authorities of its estimated Collection Fund surplus or deficit by 15 January 2017.
21. Due to the requirement to notify precepting authorities by 15 January there will be a request to the Committee Chair to exempt the decision from call in. The City Treasurer, in consultation with the Executive Member for Finance and Human Resources has delegated powers to estimate the surplus or deficit.

Business Rates Surplus / Deficit

22. Billing authorities are required under section 31A of The Local Government Finance Act 1992 to estimate any surplus/deficit on their collection fund for the year relating to business rates. Any such estimated surplus or deficit is shared between the billing authority, Central Government and the Fire and Rescue Authority.
23. The City Council has to inform Central Government and the Fire and Rescue Authority by 31 January 2017, its forecast Business Rates Collection Fund surplus or deficit.
24. Due to the requirement to notify Central Government and the Fire and Rescue Authority by 31 January there will be a request to the Committee Chair to exempt the decision from call in. The City Treasurer, in consultation with the Executive Member for Finance and Human Resources has delegated powers to estimate the business rates surplus or deficit.

Pooling of Business Rates

25. 2016/17 is the second year that Manchester has participated in a business rates pool, the current membership is the authorities within Greater Manchester, Cheshire East and Cheshire West and Chester. Each authority will need to make a decision on whether it wishes to be part of the pool for 2017/18 within 28 days of the provisional Local Government Finance Settlement due to be announced early / mid December. The purpose of pooling rates across the individual authorities is not intended to alter individual authorities income levels but to retain any levy that might be payable by certain of the authorities to Central Government. If any of the authorities which have expressed an interest so far decides it needs to withdraw then the proposed pool will fall away for the 2017/18 financial year.
26. It is anticipated that Manchester will continue to administer the pool.
27. The decision on whether Manchester City Council should continue to be part of the pooling arrangement is delegated to the City Treasurer in consultation with the Executive Member for Finance and Human Resources.

Timing of Payments

28. Payment dates for the share of Council Tax payable to the Police and Crime Commissioner and Fire and Rescue Authority have to be agreed and notified before 31 January. In previous years this has been the 23rd day of each month. It is anticipated that this will remain the case for 2017/18.
29. The Non-Domestic Rating (Rates Retention) Regulations state that the Council should make payments of business rates shares in accordance with the schedule of instalments. There is an option to agree different dates with the Fire and Rescue Authority.
30. The dates agreed with the Fire and Rescue Authority for 2016/17 were the 23rd day of each month. It is anticipated that this will remain the case for 2017/18.
31. In 2016/17 Manchester has been responsible for administering the payments and receipts of top up and tariffs to members of the Greater Manchester and Cheshire Business Rates Pool. DCLG made top up payments to Manchester in line with the dates in the schedule of installments and Manchester distributed to the top up authorities on the same dates. Manchester also received tariff payments from the tariff authorities on the same date, thus avoiding investment implications. On the assumption that Manchester administers the pool in 2017/18 it is expected the payment arrangements will remain the same.