

Manchester City Council Report for Resolution

Report to: Resources and Governance Scrutiny Committee –
6 December 2022

Subject: Setting of the council tax base and business rates shares for
budget setting purposes

Report of: The Deputy Chief Executive and City Treasurer

Summary

To advise on the methodology of calculating the City Council's council tax base and business rates income for budget setting purposes for 2023/24, along with the timing of related payments and the decision on business rates pool membership. In line with previous years the Chair of the Committee will be requested to exempt various key decisions from call in.

Recommendations

Members are asked to:

1. Note that the Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Resources, has delegated powers to:
 - Agree the estimated council tax surplus or deficit for 2022/23;
 - Set the 2023/24 council tax base for tax setting purposes in accordance with the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2013;
 - Agree the estimated business rates surplus or deficit for 2022/23;
 - Calculate the 2023/24 business rates income for budget setting purposes in accordance with the Non-Domestic Rating (Rates Retention) Regulations;
 - Determine whether the Council should be part of a business rate pooling arrangements with other Greater Manchester local authorities in 2023/24;
 - Set the dates of precept payments to the Greater Manchester Combined Authority.

 2. Note that the Chair of the Resources and Governance Scrutiny Committee will be requested to exempt various key decisions from the call in procedure.
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Wards Affected: All

Contact Officers:

Name: Carol Culley
Position: Deputy Chief Executive and City Treasurer
Telephone: 0161 234 3406
E-mail: carol.culley@manchester.gov.uk

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.
- The Non-Domestic Rating (Rates Retention) (Amendment) Regulations 2014.
- The Non-Domestic Rating (Rates Retention) (Amendment) Regulations 2016.
- The Non-Domestic Rating (Rates Retention) and (Levy and Safety Net) (Amendment) Regulations 2017.
- The Non-Domestic Rating (Rates Retention) and (Levy and Safety Net) (Amendment) Regulations 2018.
- The Non-Domestic Rating (Rates Retention) and (Levy and Safety Net) (Amendment) and (Levy Account: Basis of Distribution) Regulations 2019.
- The Non-Domestic Rating (Rates Retention, Levy and Safety Net and Levy Account: Basis of Distribution) (Amendment) Regulations 2020.

1.0 Introduction

- 1.1 The Council is required to notify the precepting authorities regarding the council tax and business rates decisions as part of the budget process. These are by prescribed statutory dates.

The decisions are as follows:

- agree the annual estimated council tax surplus or deficit by 15 January 2023;
 - set the annual council tax base by the 31 January 2023;
 - agree the annual estimated business rates surplus or deficit by 31 January 2023; and
 - set the annual Business rates base by the 31 January 2023.
- 1.2 The actual level of the council tax is subject to further approval and will be set out in the Council Tax Resolution report to March Council.
- 1.3 All the decisions and estimates will take account of the known impacts of the current economic climate and assumptions of the future financial implications.
- 1.4 In December 2020, along with the Provisional Settlement, the Government announced billing authorities declaring deficits on their 2020/21 Collection Fund, as forecast in January 2021, were mandated to spread this deficit over three financial years (2020/21, 2021/22 and 2022/23). This applied to both council tax and business rates and removed any deficit due to additional retail, hospitality and leisure relief which was funded by section 31 grant. 2022/23 will be the final year of this spreading impact.
- 1.5 The spreading of deficits does not impact on the underlying council tax and business rates base position.

2.0 Council Tax Surplus / Deficit

- 2.1 Billing authorities are required under section 32 of The Local Government Finance Act 1992 to estimate the council tax surplus or deficit on their Collection Fund for the relevant year. Any such estimated surplus or deficit is shared between the billing authority and its major precepting authorities.
- 2.2 The City Council is to notify the precepting authorities (Police and Crime Commissioner, and Mayoral and Fire and Rescue elements of the Greater Manchester Combined Authority), of its estimated Collection Fund surplus or deficit by 15 January 2023.
- 2.3 Due to the requirement to use the most up to date information, (as at 31 December 2022) and to notify precepting authorities this by 15 January 2023 there will be a request to the Committee Chair to exempt the decision from call in. The Deputy Chief Executive and City Treasurer, in consultation with the

Executive Member for Finance and Resources, has delegated power to agree the estimated council tax surplus or deficit.

- 2.4 In 2022/23, as part of its response to the energy crisis the Government launched the Council Tax Energy Rebate scheme offering £150 grant to support residents with increasing energy bills. In some cases, where the taxpayer failed to redeem vouchers, provide bank details or requested directly, this was provided through application of a council tax credit reducing their liability. Grant will be transferred to the Collection Fund to match the reduced income in 2022/23 so the Collection Fund this is not distorted.

3.0 Setting of Council Tax Base

- 3.1 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 is to be based on data available as at 30 November 2022 and the decision must be made between 1 December 2022 and 15 January 2023. The City Council is required to notify the precepting authorities of its calculation for 2023/24 by 31 January 2023.
- 3.2 If the calculation has not been agreed by 15 January 2023 the regulations provide that the responsibility for calculating the council's tax base transfers to the precepting authority. They must calculate the tax base on behalf of the City Council, and themselves, based on the information available. This information will include any recommendations of the Deputy Chief Executive and City Treasurer; it will also include any amount calculated by the Secretary of State for the purposes of distribution of government funding.

Basis of Calculation of Tax Base

- 3.3 The calculation of the council tax base is, in essence, the number of dwellings within the Council's boundary presented as 'Band D equivalent'. This means dwellings falling outside Band D are converted into a proportionate Band D value based on the table below. Once the Band D bill is calculated and approved the individual band bills are calculated in the ratios proportionate to Band D.

Band	Proportion of Band D
Band A	6/9
Band B	7/9
Band C	8/9
Band D	9/9
Band E	11/9
Band F	13/9
Band G	15/9
Band H	18/9

- 3.4 The number of properties is adjusted to take account of discounts and exemptions for disabled occupants, single occupiers, students, exempt dwellings, as well as reductions in accordance with the council tax support scheme, this will also reflect empty homes premiums. A further adjustment is made for non-collection of council tax.
- 3.5 The statutory timescale for undertaking the tax base calculation means that the tax base calculation for 2023/24 is based on information that will be out of date by the time that the bills are issued in March 2023. Whilst this would not be an issue for most authorities, the fluctuating numbers of students and the transient population in Manchester make it difficult to predict how many properties will be exempt, empty or occupied by a single person on 1 April 2023 and the forthcoming financial year. There will be more accurate student data available by the declaration deadline, as student discounts and exemptions tend to increase towards the end of the first academic term in December. Therefore, figures on which the tax base will be calculated represent a 'best estimate' at a point in time.
- 3.6 The tax base calculation will include assumptions about the potential changes in the following, between 1 December 2022 and 31 March 2023:
- New properties;
 - Properties that are demolished;
 - Exempt properties (including all student households);
 - Disabled relief;
 - Single person discounts;
 - Empty properties; and
 - Council tax support scheme claimants.
- 3.7 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. However, after this date the council tax base calculation must include an estimate of the amount of council tax foregone due to the support scheme and this estimate is based on the forecast number of claimants.
- 3.8 The Council Tax Support Scheme, set the maximum level of council tax support for working age households at 82.5% of council tax due.
- 3.9 The council tax base for 2022/23 was estimated at 127,620 Band D equivalents, up from 119,649.3 in 2021/22. The council tax base for 2023/24 will be recalculated to reflect the most up to date position and support the key decision required. The Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Resources, has delegated power to agree the tax base for council tax setting purposes.
- 4.0 Basis of Calculation of Business Rates Base**
- 4.1 Since 2017/18 Manchester has been part of the 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 Combined Authority, for the Greater Manchester Fire and Rescue Service.

- 4.2 The retained business rates income is subject to a safety net and Greater Manchester authorities, under the 100% retention agreement, are protected at 97.0% of their baseline funding level compared to retained business rate income, which is adjusted to include section 31 grants and tariffs or top up payments. This change in funding has brought a higher level of uncertainty in council resources and has implications for how the budget is set.
- 4.3 The starting point for the calculation is the estimate of gross business rates payable by business ratepayers in 2023/24. This includes a forecast for growth, for businesses added to, or deleted from, the rating list in the forthcoming the year. This is adjusted by the forecast cost of mandatory reliefs including small business rate relief, charity and community and amateur sports club relief, partly occupied relief and empty property relief. It is further adjusted for 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 net of reliefs is then reduced by an allowance for the costs of collection, an estimate of non-collection, and the effect of appeals against rateable values.
- 4.4 From 1 April 2023 a new rating list will be applied by the Valuation Office Agency (VOA), known as a revaluation. This will aim to set Rateable Values (RV), on which business rates bills are based, to reflect the market rental values of properties as at 1 April 2021. The draft list will not be released until late December so it is not yet clear what impact this will have on the Council's rating income. However, at national level the Government aims to maintain fiscal neutrality by adjusting the multiplier by the overall movement in RV. Further adjustments will be made to the Council's tariff or top up amount to counteract any shift in gross rates.
- 4.5 The calculation of the impact of appeals in 2023/24 will be based on data and information provided by the VOA, the government agency responsible for administering appeals, and from local systems. This will include outstanding appeals lodged with the VOA relating to the 2017 rating list and a forecast of those still to appeal against this list as businesses will have until 30 September 2023 (6 months) to lodge these; it will also include an estimate of appeals expected to be received in 2023/24 relating to the 2023 rating list, based on the effects of the settlements of historic appeals and known intelligence. Appeal volumes are proving to be volatile; following the introduction of the reformed appeal process 'Check, Challenge and Appeal' in 2017, where a RV can be adjusted following a check from a ratepayer, rather than progressing to the Challenge or Appeal stage so these may not be included within VOA appeal data. There is limited information available from the VOA for the new process; therefore, authorities are reliant on historical information and trends.
- 4.6 The Council continues to facilitate four Enterprise Zones where growth above the prescribed baseline is retained locally. Enterprise Zones offer business rate relief for up to 5 years (funded by government), simplified planning and

capital allowances (tax relief) that aim to encourage new businesses to locate within the area. Changes in the rating list for properties in the enterprise zones are considered and reported separately.

- 4.7 The Non-Domestic Rating (Rates Retention) Regulations require that the Council estimates the shares of business rate income for 2023/24 and notifies Central Government and the Greater Manchester Combined Authority of these amounts by 31 January 2023.
- 4.8 Given the requirement to notify Central Government and the Greater Manchester Combined Authority by 31 January 2023 there will be a request to the Committee Chair to exempt the decision from call in. The Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Resources, has delegated power to agree the estimated business rates income for budget setting purposes.

5.0 Business Rates Surplus / Deficit

- 5.1 Billing authorities are required under section 32 of The Local Government Finance Act 1992 to estimate any business rates surplus or deficit on their Collection Fund for the relevant year. Any such estimated surplus or deficit is shared between the billing authority and the Greater Manchester Combined Authority, (for the Greater Manchester Fire and Rescue Service).
- 5.2 The City Council is to inform Central Government (NNDR1 return) and the Greater Manchester Combined Authority by 31 January 2022 of its forecast business rates Collection Fund surplus or deficit.
- 5.3 Due to the requirement to use the most up to date information, including the latest estimated collection rates, (to the 31 December 2022) and to notify Central Government and the Greater Manchester Combined Authority by 31 January 2023 there will be a request to the Committee Chair to exempt the decision from call in. The Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Resources, has delegated power to agree the estimated business rates surplus or deficit.

6.0 Pooling of Business Rates

- 6.1 The Greater Manchester and Cheshire business rates pool, which included the ten Greater Manchester authorities and Cheshire East was established in 2014/15, with Cheshire West and Chester joining in 2015/16. However, this was dissolved in 2020/21 due to the uncertainty and risk of collection linked to the pandemic; and a Pool was not invoked in 2022/23.
- 6.2 On 22 September 2022 an in-principle application was submitted to Government for the ten Greater Manchester authorities to form a Pool in 2023/24. Each authority will need approval, through its respective governance arrangements, and a final decision on whether to participate in the 2023/24 Pool is required within 28 days of the Provisional Local Government Finance Settlement, which is expected in late December, with a date to be confirmed.

- 6.3 The purpose of pooling business rates across the individual authorities is not intended to alter individual authorities' income levels but to retain any levy that would have otherwise been paid by certain authorities to Central Government. The levy is applied to the growth above the Baseline Funding Level for tariff authorities, namely Trafford Borough Council in Greater Manchester. The levy would then be retained locally by the levy authority and the Pool.
- 6.4 If any of the ten authorities, which have expressed an interest so far, decide to withdraw from the Pool then the proposed pool will dissolve for 2023/24. The remaining authorities would not have the opportunity to create a new Pool.
- 6.5 The decision on whether Manchester City Council should continue to be part of the pooling arrangement is delegated to the Deputy Chief Executive and City Treasurer in consultation with the Executive Member for Finance and Resources.

7.0 Timing of Payments

- 7.1 Payment dates for the share of council tax payable to the Greater Manchester Combined Authority must be agreed and notified before 31 January 2023. The payment dates are proposed as the 20th of each month for 2023/24, the same dates as for 2022/23.
- 7.2 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 Greater Manchester Combined Authority if required. The payment dates are proposed as the 20th of each month for 2023/24, the same dates as for 2022/23.
- 7.3 If the business rates pool is enacted in 2023/24, Manchester, as the lead authority, will be responsible for administering the payments and receipts of top up and tariffs to members of the Greater Manchester Business Rates Pool. Government will pass top up payments to Manchester in line with the dates in the schedule of instalments and Manchester will distribute these to the top up authorities on the same dates. Manchester will also receive tariff payments from the tariff authorities on the same date, thus avoiding investment implications.

8.0 Recommendation

- 8.1 The recommendations appear at the front of this report.