

Agenda item:

Decision maker: CABINET

Subject: Calculation of the tax base for 2015/16 and estimation of the Council Tax Collection Fund balance at 31st March 2015

Date of decision: 8 January 2015

Report by: Head of Financial Services and Head of Revenues & Benefits

Wards affected: All

Key decision:

Budget & policy framework decision:

1. Summary

The tax base for Portsmouth City Council for 2015/16 shall be 53,277.2. The estimated council tax surplus on the collection fund shall be £2.19 million as at 31 March 2015.

2. Purpose of report

2.1 To obtain formal approval of the tax base calculated for the financial year 2015/16 for the City Council.

2.2 To approve the estimate of the balance on the Council Tax Collection Fund at 31 March 2015.

3. Background

The Council tax base is the total number of domestic properties in the city, after making deductions for exempt dwellings and for the granting of reliefs and discounts for disabled occupiers, single occupiers, council tax support and empty properties.

The tax base also makes allowances for adjustments to the Valuation List and an allowance for non-collection. The adjusted numbers of properties in each of the eight valuation bands A to H are expressed as the number of band D equivalents, in order to produce a single figure.

The tax base is used in the calculation of the Council Tax by the City Council as well as in the calculation of the precept payable by the City Council to the Hampshire Police & Crime Commissioner and the Fire Authority.

It is necessary to seek approval of the tax base at an early stage in the budget setting process because the City Council is required to notify the Police and Fire Authorities of the tax base before 31 January of each year. This is to allow them sufficient time to finalise their budget requirement and notify the City Council of their precept by no later than 1 March.

The Collection Fund is a fund kept and maintained by the City Council into which are paid any amounts collected in respect of Council Tax and Non Domestic Rates and out of which are paid the precepts to the Hampshire Police and Crime Commissioner, the Fire Authority and payments to central government and also the City Council's own demand on the Fund.

Any sums received or payments made in respect of Non Domestic Rates have to be separately identified within the Fund. This will be taken into account within the report on the 2015/16 revenue budget, which will be considered by the City Council on 10 February 2015.

Any surplus or deficit arising in 2014/15 is to be shared by the City Council and the Police and Crime Commissioner and Fire Authority according to the defined precept percentages.

The Collection Fund is considered at this stage of the budget process because the City Council is required to calculate the surplus or deficit on the Collection Fund by 22 January 2015 and notify the Police and Crime Commissioner and Fire Authority within seven working days of calculating the estimate (i.e. by 31 January 2015).

4. Recommendations

5.1 That in accordance with The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, the amount calculated by Portsmouth City Council as its Council Tax Base for 2015/16 shall be 53,277.2

5.2 That in accordance with The Local Authorities (Funds) (England) Regulations 1992 as amended, the amount calculated by Portsmouth City Council as the surplus on its Council Tax Collection Fund at 31 March 2015 shall be £2.19 million.

6. Reasons for recommendations

6.1 Analysis of the Dwellings on the Valuation List

The detailed rules for calculating the Council Tax Base are contained within the Local Authorities (Calculation of Tax Base) Regulations 2012.

The starting point is a return made to the Department of Communities and Local Government in October of each year that contains a "snapshot" of the analysis of dwellings appearing on the Valuation List. A summary of this return is included with

this report as Appendix 1, showing the total number of dwellings and the major types of discount and exemptions across the Council Tax banding range.

Points worthy of note from this analysis are that:

- The total number of dwellings has increased by 397 over the last year from 88,890 to 89,287. This compares to a rise for the previous year of 265.
- The “snapshot” number of 5,177 exemptions represents those already granted as of 6 October 2014 and in calculating the Tax Base, an addition has to be included (See Appendix 2) to account for exemptions that will be granted retrospectively. It is worth noting that the number of exemptions in comparison to 2013/14 has reduced by 304, improving the tax base position.
- The largest category of exemptions is relevant to student accommodation, of which there were 3,656 as at 6 October 2014.
- The 32,835 dwellings receiving 25% discount represents 37% of the valuation list, of which 31,781 are single adult resident households. Authentication tests on the entitlement to a discount are performed each year, which includes comparison to the electoral register and residency checks. The single adult discount review saw a significant reduction in claims, with a number of those taxpayers reviewed confirming that additional adults are resident and are no longer entitled to a discount.
- Of 89,287 dwellings on the Valuation List only 49,040 (55%) are liable to the full charge. This is an increase of 2% compared to last year, and is the result of fewer discounts and exemptions.

6.2 Calculating the Tax Base

Appendix 2 to this report sets out a summary of the calculations used to establish the Tax Base, with the starting point being the number of “Chargeable dwellings (adjusted for Disabled reductions)”.

An adjustment is made for appeals, discounts and exemptions likely to be granted after October 2014 that will retrospectively increase the “snapshot” number shown in Appendix 1. This is estimated to be an additional 115 based on trends in both the number of reductions and their financial effect on collections.

Deductions are then also made to allow for the effects of discounts given at 50% and 25% and discounts for empty properties using the associated dwelling numbers from Appendix 1. The deduction for discounts and exemptions is the composite of newly awarded discounts and exemptions, and those being ended.

The Council Tax Support scheme now forms part of the tax base as a discount. An estimate has been made based on the current Council Tax Support recipients and is apportioned over the bands.

It is necessary to forecast any changes to this baseline for the period from November 2014 through to the 31st March 2016 based on the best available analysis of trends in the numbers of dwellings, exemptions and discounts.

Adjustments for November 2014 through to March 2016 have therefore been made to account for a total of 612 expected new dwellings. After discounts and exemptions and part year completions have been applied to this it is estimated that the net equivalent increase for the full year will be 340.

Although we do not anticipate a large increase in the number of appeals over bandings, this year has seen a greater number of higher banded properties successfully achieving a reduction in band, and it is estimated that this experience will continue through 2015/2016. For each reduction that is made and is backdated to 1993, on properties in band D or less it has the financial equivalent of losing a band D property for the whole of the year. For each property above band D it is the financial equivalent of two band D properties.

The resultant number is the "Net equivalent chargeable dwellings" providing a baseline for the Tax Base calculation.

The equivalent number of dwellings, after these adjustments, is converted into "Relevant Amounts" or Band D Equivalent Dwellings. The aggregate of these relevant amounts is then multiplied by the estimated "ultimate" collection rate of 97.8%, an increase of 0.2% on 2014/15.

The final adjustment to the tax base is to add back an estimate of the equivalent number of Band D dwellings on which the Crown / MOD will pay a contribution in lieu of Council Tax.

The resultant TAX BASE for 2015/16 is 53,277.2 as shown in Appendix 2.

6.3 Comparison with 2014/15 Tax Base

The Tax Base has increased to reflect the number of new properties due to be added to the valuation list between November 2014 and 31 March 2016, in addition to the increase already experienced. There have also been reductions in exemptions and discounts, including reductions in council tax support expenditure.

6.4 Factors to consider in assessing the balance on the Collection Fund at 31 March 2015

The three key factors, which can influence the balance on the Collection Fund at 31 March 2015, are: -

- The balance brought forward from the previous year
- A re-assessment of the income due in 2014/15 and therefore the extent of discounts and exemptions
- An assessment of the provision required in respect of any arrears at 31 March 2015 which the City Council considers will be ultimately non-collectable

Each of these is considered in turn: -

6.5 Collection Fund at 1 April 2014

On closing the accounts at 31 March 2014, the surplus on the Council Tax Collection Fund was £1.857 million.

6.6 A re-assessment of the income due 2014/15

Based on the latest information available, the gross income due from Council Tax in 2014/15 is estimated to be £74.418m. This is assessed as follows: -

	£'000	£'000
Gross Liability		(102,843)
Less: Exemptions	6,098	
Discounts	9,758	
Council Tax Support/Benefit	12,669	
Banding Appeals	<u>190</u>	28,715
Plus: Forecast additions to tax base to the end March 2015		(290)
Gross Income due		<u>(74,418)</u>

6.7 Estimated Council Tax Arrears at 31 March 2015 and Provision for Losses

Estimated Council Tax arrears at 31 March 2015 are projected to be as follows: -

	£'000
Arrears brought forward at 1 April 2014	12,477
Gross Income due 2014/15	<u>74,418</u>
	86,895
<u>Less:</u>	
Council Tax collected in year (net of refunds)	(73,547)
Bad Debt Written Off	(2)
Estimated Arrears at 31 March 2015	<u>13,346</u>

The arrears as at 31 March 2015 are forecast to be £13.346m.

Whilst every effort will be made to collect all outstanding arrears, it is inevitable that a certain element will ultimately prove to be irrecoverable (e.g. “gone away” cases, deceased estates etc), and it is necessary to make provision for this element within the Collection Fund.

Of the £13.346m arrears, £9.443m has been set aside as expected to be uncollectable leaving £3.903m forecast to be collectable, relating to the current year and all previous years.

6.8 Estimate of balance on the Council Tax Collection Fund at 31 March 2015

Based on the assumptions referred to above in respect of the balance brought forward at 1 April 2014, the revised estimate of income due in 2014/15, the projected arrears and the proposed change in provision for losses, the Council Tax Collection Fund results in the following: -

COUNCIL TAX COLLECTION FUND 2014/15

	£'000	£'000
Surplus brought forward at 1 April 2014		(1,857)
<u>INCOME</u>		
Council Tax Income due 2014/15		
Council Tax	(73,513)	
MoD Contribution	(905)	(74,418)
Council Tax Estimated surplus 2013/14		
Portsmouth City Council	1,185	
Hampshire Police Authority	153	
Hampshire Fire Authority	62	1,400
<u>EXPENDITURE</u>		
Precepts		
Portsmouth City Council	60,371	
Hampshire Police Authority	7,949	
Hampshire Fire Authority	3,163	71,483
Provision for losses		1,202
ESTIMATED SURPLUS AT 31st March 2015		(2,190)

This position will be taken into account in setting the City Council Budget for 2015/16.

7 NNDR COLLECTION FUND AND TAX BASE 2015/16

- 7.1 The Collection Fund comprises two parts, the first part relates to the Council Tax as previously described, the second part of the Collection Fund estimates the total income to be collected in respect of business rates paid by the occupiers of commercial premises and the distribution of those Business Rates to Central Government, the Fire Authority and the City Council.
- 7.2 Prior to April 2013 all business rates income was passed to Central Government and this was re-distributed to local authorities based upon a combination of needs and resources in the form of "formula grant".
- 7.3 In April 2013 the system was reformed with the introduction of the business rates retention system, whereby, each local authority would now retain a "proportionate share" of the business rates collected in the billing authority area. For Portsmouth, the proportionate share is 49% of all business rates collected.
- 7.4 Section 59A and Schedule 7B to the Local Government Finance Act 1988, imposes a duty on the council, as a billing authority, to calculate the level of business rates (effectively its business rates tax base) it anticipates collecting for 2015/16 and pass this information by 31 January 2015 to precepting authorities. The NNDR tax base must be set between 1 December 2014 and 31 January 2015. This information is then passed to the Government (DCLG) by the 31 January 2015.
- 7.5 The estimate of the Business Rates tax base (and therefore business rates income) and any surplus / deficit on the Fund will be contained in the budget report that will be submitted to Council for approval on 10 February 2015.

8 Head of Legal Services comments

- 8.1 The City Solicitor has confirmed that it is within the Executive's powers to approve the recommendations set out above.

9 Head of Financial Services comments

- 9.1 All financial implications arising from the recommendations are contained within the body of the report.

Signed by: Head of Financial Services

Head of Revenues & Benefits

**Appendices: 1 Analysis of Dwellings
2 Tax base calculation**

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

	Title of document	Location
1	CTB1 Form 2014/15	Local Taxation Section
2	Tax Base 2015/16 Files	Local Taxation Section
3	Council Tax Forecast of Arrears File	Financial Services LAN
4	Council Tax Support estimates	Revenues & Benefits LAN

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by [Cabinet] on [8th January 2015].

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Signed by: [Leader of City Council]