

<b>MAYOR &amp; CABINET</b>			
<b>REPORT TITLE</b>	Setting the Council tax base, the NNDR Base & Discounts for Second Homes and Empty homes		
<b>KEY DECISION</b>	Yes	<b>ITEM NO.</b>	7
<b>WARD</b>	All		
<b>CONTRIBUTORS</b>	Executive Director for Resources & Regeneration and Executive Director for Customer Services		
<b>CLASS</b>	Part 1	<b>Date</b>	16 January 2013

## **1 EXECUTIVE SUMMARY**

- 1.1. This report sets out the statutory calculations required in order to set the council tax base and the national non-domestic rates (NNDR) base for 2013/14. The council tax base and NNDR Base are statutory obligations and are key elements in setting the General Fund Revenue budget.
- 1.2. The reports provides background to the national policy changes which affect the council tax base and projected council tax income figures. There are also a series of technical changes which provide the Council with increased power and local discretion to grant and vary discounts for various types of properties. These have been set out in sections four and five of this report.
- 1.3. The report recommends that the council tax base for 2013/14 be agreed at 71,886.9, based on an assumed collection rate of 95%. Details of the Council tax base, its calculation and the estimated collection rate have been set out in sections six and seven of this report.
- 1.4. The NNDR figures in this report are based on the NNDR1 return to the Department for Communities and Local Government (DCLG). The requirement pertaining to the NNDR Base for 2013/14 has been set out in section nine of this report.

## **2 RECOMMENDATIONS**

The Mayor agrees:

- 2.1 To recommend that the Council, at its meeting on 23 February 2013, agree a Council tax base of 71,886.9 for 2013/14;

- 2.2 To note the Council tax base calculation for 2013/14, as set out in Appendix A;
- 2.3 To recommend to Council the budgeted collection rate of 95%;
- 2.4 To recommend to Council a 0% discount for second homes, thereby removing the 10% which currently exists, as set out in section five;
- 2.5 To recommend to Council a 0% discount for Empty homes – Class A (an empty property undergoing structural alteration or major repair to make it habitable), as set out in section five;
- 2.6 To recommend to Council a 0% discount for Empty homes – Class C (a substantially empty and unfurnished property), as set out in section five;
- 2.7 To recommend to Council to apply an Empty homes premium of 150% in respect of long term empty properties, as set out in section five;
- 2.8 To note the NNDR1 return, as set out at Appendix B.

### **3 POLICY CONTEXT**

- 3.1 The overarching policy and decision making framework for the discharge of the Council's many functions and duties is contained in Lewisham's Sustainable Community Strategy. The Strategy contains two overarching principles which are:
  - reducing inequality – narrowing the gap in outcomes
  - delivering together efficiently, effectively and equitably – ensuring that all citizens have appropriate access to and choice of high quality services
- 3.2 Also contained with the overarching policy framework are the Council's ten corporate priorities. These priorities describe the specific contribution that the Local Authority will make to the delivery of the Sustainable Community Strategy. The Council's priorities are as follows:
  - Community Leadership and Empowerment
  - Young people achievement and involvement
  - Clean, green and liveable
  - Safety, security and visible presence
  - Strengthening the local economy
  - Decent Homes for all
  - Protection of children
  - Caring for adults and older people

- Active health citizens
- Inspiring efficiency, effectiveness and equity

## **4 INTRODUCTION**

- 4.1 The calculation of the council tax base has been prepared in accordance with the new Regulations 'Local Authorities (Calculation of Council tax base) Regulations 2012 (SI: 2012: 2914)' which came into force on 30 November 2012, to enable local authorities to calculate the tax base for the financial year 2013/14. These regulations specify the formulae for calculating the Tax Base, which is detailed in sections six and seven of this report.
- 4.2 The purpose of this calculation is to set the council's tax base and not the council tax itself. The council tax will be set at the meeting of full Council on 27 February 2013.
- 4.3 The council tax base is defined as the number of Band D equivalent properties in a local authority's area. An Authority's Tax Base is taken into account when it calculates its council tax.
- 4.4 It is calculated by adding together the 'relevant amounts' (the number of dwellings) for each valuation band, then multiplying the result by the Council's estimate of its collection rate for the year. This calculation is set out in section seven of this report.
- 4.5 The Welfare Reform Act 2012 abolishes the existing system of council tax benefit with effect from 31 March 2013. It is to be replaced by the Council Tax Reduction Scheme (CTRS). This is due to be introduced from 1 April 2013 and is contained within the Local Government Finance Act which received Royal Assent on 31 October 2012. Detailed information on the new CTRS was presented in a report to Mayor & Cabinet on 5 December 2012. A proposed CTRS will be recommended to the full Council meeting of 23 January 2013.
- 4.6 Local authorities have discretion to enable them to design their own scheme to support working age applicants. However, the Council must follow the DCLG Prescribed Scheme for those who have reached pensionable age, which ensures that they continue to receive some level of support towards their CT liability.
- 4.7 The reduction in the Council tax base for 2013/14 is due to the change in the way the CTRS is accounted for. Without these changes the council tax base would have increased in line with the rise in the total number of properties in the borough and changes to the system of discounts and exemptions.
- 4.8 For working age claimants, Lewisham is proposing that all claimants will have to make some payment towards their council tax. This is to help fund the shortfall between what the Council is paying out via the CTRS and the amount of grant the Council will receive from the Government for this purpose.



## 5 TECHNICAL CHANGES

- 5.1 The Council has the power and local discretion to grant and vary discounts for different types of properties under Section 11a of the Local Government Finance Act 1992, as amended by the Local Government Finance Act 2003 and now the Local Government Finance Act 2012. The most recent changes allow authorities to remove some discounts altogether. Furthermore, there are some exemptions are being made to discounts and the Authority will have discretion on the amount awarded. These discounts and exemptions form part of the council tax base calculation. Therefore, if these changes are to be made for 2013/14, they will need to be agreed at this time.
- 5.2 These technical changes will enable local authorities to create greater financial incentives for owners of empty properties to bring them back into use, either for owner occupation or letting. The additional income received from them will be used to help bridge the funding gap which will result from the introduction of the new CTRS.
- 5.3 With effect from 1<sup>st</sup> April 2013, authorities will be given more discretion with regard to discounts and these are set out below:
- 5.3.1 Second Homes – Currently, local authorities have discretion to offer a discount of between 10% and 50% to owners of second homes. The Council currently offers the discount of 10%, the minimum discount allowed. It is proposed to reduce this discount to 0%. During 2011/12, the total value of second home discounts came to £64k. The Council will be allowed to keep any additional revenue generated by the reduced discount from April 2013.
- 5.3.2 Empty Property Class A exemptions – 100% is currently awarded for a maximum of 12 months where the property is undergoing structural alteration or major repairs. After 12 months, the exemption ceases and the full charge is applicable. This exemption is being replaced with a discount that can range from 0% to 100% at the Council's discretion. The Council had 286 properties in receipt of a Class A exemption during 2011/12. The Council is being recommended to a 0% discount on these properties. This would generate approximately £150k in additional revenue.
- 5.3.3 Empty Properties Class C exemptions – 100% is currently awarded for a maximum of six months to substantially empty and unfurnished properties for up to six months. After the six month exemption ceases a full charge is applicable. The Council wants to encourage properties to be occupied as soon as possible. However, in many cases properties can be empty for a short period during a change over, especially where the property is let. Amounts due for these short periods would be more difficult to collect. For these reasons it is recommended that the Council offer a 100% discount for four weeks

followed by a 0% discount and generate a further £710k in additional revenue.

#### 5.4 Long Term Empty Properties – Empty homes premium

- 5.4.1 A new provision introduced by Section 11 of the Local Government Finance Act 2012 will remove the discount for long term empty properties and also discretion to charge up to 50% premium on this category of properties. This is to encourage the owners of empty properties to bring them back into use. The Council will be allowed to charge an 'empty homes premium' of up to 50% where the property has been empty for two years or more. Therefore, the council tax bill could be up to 50% more if the property is occupied and no single person discount is applicable.
- 5.4.2 Officers have identified periods during 2011/12 where a long term empty property would have attracted the premium if it were in place now. The properties concerned would generate £174k additional income if the Council chose to add 50% premium to the full charge.
- 5.5 If the proposals in this report are agreed council tax income would increase by some £1.1m. However, it should be noted that approximately 23% of this would be attributable to the GLA.

## 6 **COUNCIL TAX BASE**

- 6.1 The calculation of the council tax base has been prepared in accordance with the new Regulations 'Local Authorities (Calculation of Council Tax Base) Regulations 2012 (SI: 2012: 2914)' which came into force on 30 November 2012.
- 6.2 The regulations specify a formula for this calculation, which for 2013/14 is:

$$((H - Q + E + J) - Z) \times (F / G)$$

where:

**H** is the number of chargeable dwellings in that band, calculated in accordance with the regulations at 30 November 2012.

**Q** is a factor to take account of the discounts to which the amount of council tax payable was subject in that band, estimated in accordance with the regulations at 30 November 2012.

**E** is a factor to take account of the premiums, if any, to which the amount of council tax payable was subject in that band, estimated in accordance with the regulations at 30 November 2012.

**J** is the estimated variations in the Tax Base from changes after 30 November 2012 from factors such as:

- a) New properties and properties being banded
- b) Variations in numbers of exempt properties
- c) Successful Appeals against bandings
- d) Variations in the number of discounts

**Z** is the total amount that the authority estimates will be applied in relation to the authority's council tax reduction scheme in relation to the band, expressed as an equivalent number of chargeable dwellings in that band.

**F** is the proportion of Council tax to be paid for dwellings in that band

**G** As compared with a Band D property, using the proportions in the 1992 Act

6.3 The proportions applicable to the various council tax bands (the 'basic' band being D) are as follows:-

<b>Band</b>	<b>Proportion (ninths)</b>
A	6
B	7
C	8
D	9
E	11
F	13
G	15
H	18

6.4 The Council's basic tax is calculated in respect of Band D. Therefore, Band A properties pay 6/9 of the basic tax, Band B properties 7/9 of the basic tax and so on, up to Band H where the tax is 18/9 or twice the tax at Band D.

<b>Band</b>	<b>Relevant Amount (i.e. number of dwellings)</b>
A	2,010.5
B	14,430.5
C	25,703.9
D	20,334.5
E	7,557.0
F	3,630.6
G	2,020.1
H	311.2



<b>Aggregate of Relevant Amounts</b>	75,998.4
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## 7 CALCULATION OF THE COUNCIL TAX BASE

- 7.1 Regulation 3 of the 'Local Authorities (Calculation of Council tax base) Regulations 2012 (SI: 2012: 2914), requires that the Council's Tax Base for a financial year shall be calculated by applying the formula:

$$A \times B = T$$

Where

**A** is the total of the relevant amounts for that year for each of the valuation bands, which is shown or is likely to be shown for any day in that year in the authority's valuation list as applicable to one or more dwellings situated in its area.

**B** is the Authority's estimate of its collection rate for that year.

**T** is the calculated Council tax base for that year.

- 7.2 In accordance with the requirements of the regulations and following from the calculations in this report, the calculation of the Council tax base for the London Borough of Lewisham in 2013/14 is as follows:

	<b>2012/13</b>	<b>2013/14</b>
Total of relevant amounts = <b>A</b> =	92,902.9	75,998.4
<b>X</b>		
Collection rate = <b>B</b> =	96.25%	95.00%
<b>Council tax base</b>	<b>89,419.0</b>	71,886.9

- 7.3 The detailed calculations proposed for the London Borough of Lewisham for 2013/14 are set out at Appendix A. The reason for the reduction in the proposed collection rate to 95% is set out in section eight below.

## 8 ESTIMATE OF THE COLLECTION RATE

- 8.1 The Regulations require that the Council estimates its collection rate for the financial year. This is the Council's estimate of the total amount in respect of its Council tax for the year payable into its Collection Fund and transferable between its General Fund and Collection Fund, and which it estimates will ultimately be transferred.
- 8.2 The collection rate has been reviewed in light of introduction of the CTRS. Council tax collection in Lewisham has been increasing steadily over recent years, reflecting an efficient service able to enforce

debts effectively against those able to pay and to make reasonable arrangements for debtors in genuine financial hardship. However, an implication of the introduction of the CTRS, as set out elsewhere on this agenda, is that approximately 20,000 residents will have to start paying some council tax directly instead of having it met by council tax benefit.

- 8.3 Some of these residents may be in financial hardship. In addition, the amounts they may be required to pay will often be small individually, although they will in aggregate be substantial). Such debts can be difficult to collect and the report elsewhere on this agenda suggests that a 50% collection rate may be realistic. Officers believe that this figure is near the median level proposed by other London boroughs. However, only experience of collecting these debts will demonstrate how realistic this estimate is.
- 8.4 On this basis, and also to be prudent, it is anticipated that collection in 2013/14 may decline from the level achieved in 2012/13. For these purposes it is the 'lifetime' collection rate that is relevant, i.e. the total amount of the 2013/14 debit that will eventually be collected in 2013/14 and subsequent years. However, this lifetime rate is largely driven by the in year collection rate, because debts that are not collected promptly become proportionately more difficult to collect. In 2012/13 officers anticipate collecting around 94.75% of that year's council tax, and had it not been for the introduction of the CTRS it might have been reasonable to propose increasing the lifetime collection rate from its current level of 96.25%.
- 8.5 However, for the reasons set out above, collection in 2013/14 may actually fall, and less of the council tax will be paid by council tax benefit. On this basis it is proposed to reduce the anticipated lifetime collection rate for 2013/14 to 95.00%.

## **9 NNDR TAX BASE**

- 9.1 The new funding system for Local Government includes the partial localisation of business rates. Under the Local Government Finance Act 2012, the current system of national pooling of business rates was repealed and replaced with the Business Rates Retention scheme. The new scheme commences on 1 April 2013 and requires the full Council formally to approve the NNDR1 form by 31 January immediately preceding the financial year to which it relates. The NNDR1 contains details of the rateable values shown for the Authority's local rating list at 30 September. It enables the Council to calculate the expected income in respect of business rates for the year, a proportion of which the Council will retain from 2013/14 onwards.

- 9.2 The London Borough of Lewisham will retain 30% of all business rates collected with the borough, 20% will go to the Greater London Authority and the remaining 50% known as the Central Share will go to the Government.
- 9.3 In summary, after reliefs, adjustments and cost of collection, the Council anticipates the net yield to be £48,190,132, before transition costs. This assumes a collection rate which is in line with the performance from previous years.
- 9.4 The summary below shows the respective shares of the £48,190,132

	<b>% Share</b>	<b>£</b>
Central Share	50	24,095,066
Lewisham	30	14,457,040
GLA	20	9,638,026
<b>Total</b>	<b>100</b>	<b>48,190,132</b>

- 9.5 The Council will keep its entire share, but will also be in receipt of a top-up, the calculation of which is based on the Business Rates Baseline, plus DCLG calculation of the Council's baseline funding level. This funding level was confirmed in the Local Government Finance Settlement announcement on 19<sup>th</sup> December 2012.
- 9.6 The full detail of the information is set out in Appendix B to this report and the Mayor is being asked to recommend Council to endorse this.

## **10 FINANCIAL IMPLICATIONS**

- 10.1 This report proposes that a council tax base of 71,886.9 be set. This is over 17,000 lower than the equivalent figure for 2012/13, which reflects the change in the funding arrangements and the shift from council tax benefit to CTRS. A direct like-for-like comparison is not therefore possible.
- 10.2 However, based on the estimates in this report the council will gain additional income of some £1.1m from the changes to the discounts and exemptions proposed, comparing 2012/13 with 2013/14. As against this the anticipated reduction in the collection rate will reduce income by some £0.9m.
- 10.3 Around 23% of the additional £1.1m income will be payable to the GLA, and the net impact of the changes proposed in this report will therefore be a financial pressure of some £0.05m.

## **11 LEGAL IMPLICATIONS**

- 11.1 Members are referred to the legal requirements set out in the body of the report and particularly the changes brought in by the Local Authorities (Calculation of Council tax base) Regulations 2012 (section four) and the changes introduced by the Local Government Finance Act 2012, which set out a number of changes for Council tax payers discounts and removal of some the exemptions relating to empty homes (section five) and the new NNDR system (section nine).
- 11.2 In accordance with the Local Government Finance Act 1992 and related Statutory Instruments, the Authority is required to decide its Council tax base for 2013/14 by no later than 31 January 2013.

## **12 CRIME AND DISORDER IMPLICATIONS**

- 12.1 There are no specific crime and disorder implications directly arising from this report.

## **13 EQUALITIES IMPLICATIONS**

- 13.1 Every effort will be made to ensure that Council tax payers, particularly those who are from traditionally disadvantaged groups, receive prompt and accurate Council tax bills, and that those who are eligible for exemptions and discounts - such as the disabled, single people, those on low incomes, are encouraged to claim them.

## **14 ENVIRONMENTAL IMPLICATIONS**

14.1 There are no specific environmental implications directly arising from this report.

## **15 CONCLUSION**

- 15.1 The recommended Council tax base takes account of the 'relevant amounts' for each council tax band and a considered view of the likely collection rate.

### **For further information on this report, please contact:**

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### **Appendices**

#### **A. Council tax base Calculation of Relevant Amount 2013/14**

#### **B. National Non Domestic Rates Return 2013/14**