

PROJECTED RSG TAXBASE FIGURES FOR 2006/07 AND 2007/08 - TECHNICAL NOTE

Summary

The consultation on the proposed RSG Settlement for 2006/07 and 2007/08 uses projected taxbase figures for October 2006 and October 2007 respectively. The figures are based on the valuation list at 19 September 2005, adjusted for reductions in discounts¹ for long-term empty homes taken from the September 2005 CTB1 form. Unlike previous RSG Settlements, taxbase figures have not been taken directly from the latest CTB1 returns. This is because the taxbase for 2006/07 is intended to relate to the position approximately half-way through 2006/07, rather than to a snapshot several months before the start of the financial year; and similarly for 2007/08.

Methodology

1. The taxbase for a billing authority's area for 2006/07 is the taxbase for a billing authority's area as at 10 October 2005, increased by the First Secretary of State's estimate of the average annual increase in the taxbase for the authority between:

- i. 1 November 2003, on the basis of information submitted to him in writing in accordance with the notice dated 24 October 2003 issued under section 139A of the 1988 Act and section 68 of the 1992 Act; and
- ii. 10 October 2005, on the basis of information submitted to him in writing in accordance with the notice dated 26 September 2005 issued under section 139A of the 1988 Act and section 68 of the 1992 Act.

2. Expressed algebraically, the taxbase for a billing authority's area for 2006/07 is calculated by applying the formula:

$$T_{06/07} = A + (((B / C^{0.5}) - 1) \times A)$$

Where

$T_{06/07}$ = Taxbase for a billing authority's area for 2006/07.

A = Taxbase for a billing authority's area at 10 October 2005, as reported on the September 2005 CTB1 form (which automatically includes the additional taxbase resulting from reductions in discounts for long-term empty homes);

B = Taxbase for a billing authority's area at 10 October 2005, as reported on the September 2005 CTB1 form (after deducting the additional taxbase resulting from reductions in discounts for long-term empty homes);

C = Taxbase for a billing authority's area at 1 November 2003, as reported on the October 2003 CTB1 form (which automatically excludes any additional taxbase resulting from reductions in discounts for long-term empty homes, because such reductions could not be made until 1 April 2004); and

¹ Each reference to a reduction in discount includes the case where it is totally removed (i.e. set to zero %).

^{0.5} Reflects the fact that the geometric mean annual increase - rather than the arithmetic mean increase - has been used.

3. The taxbase for a billing authority's area for 2007/08 is the taxbase for the authority for 2006/07 as calculated above, increased by the First Secretary of State's estimate of the average annual increase in the taxbase for the authority between 1 November 2003 and 10 October 2005 as stated above.

4. Expressed algebraically, the taxbase for a billing authority's area for 2007/08 is calculated by applying the formula:

$$T_{07/08} = T_{06/07} + (((B / C)^{0.5}) - 1) \times T_{06/07}$$

Where $T_{07/08}$ = Taxbase for a billing authority's area for 2007/08, and $T_{06/07}$, B and C are as defined above.

5. In making the projections, it has been necessary to adjust for reductions to discounts for long-term empty homes made under section 11A of the Local Government Finance Act 1992 (as inserted by section 75 of the Local Government Act 2003). Such reductions have the effect of *increasing* the taxbase used for RSG purposes - and hence *reducing* the amount of RSG that is calculated (before floors and ceilings)². This adjustment is needed when calculating the average increases used in making the projections, to separate the effects of reducing discounts for long-term empty homes from other changes to the taxbase.

6. In making the adjustment, account has been taken of the information on reductions to discounts, as at 10 October 2005 as reported on the September 2005 CTB1 form (columns 2 to 9 of rows 14 and 15). The resulting increase in the taxbase was obtained by:

a) i. For row 14 (zero % discount): calculating the proportion of additional council tax payable (over and above the previous 0.5 proportion, consistent with the previous 50% discount), that results from the total removal of the discount. That is, an additional 50% of council tax is payable.

ii. For row 15 (discount above zero but below 50%): calculating the proportion of additional council tax payable (over and above the previous 0.5 proportion, consistent with the previous 50% discount) that results from the reduction in the discount (e.g. reducing the discount to 25% results in 75% of council tax being payable. That is, an additional 25% is payable.

b) For each band, multiplying the number of properties entitled to a total removal or reduction in discount by the proportion of additional council tax payable, as described at a).

c) Multiplying the amounts calculated at b) by their ratio to Band D (e.g. by 6/9 for Band A) and summing the resulting figures to give the total increase in the RSG taxbase for the authority

² In contrast, any reductions to the discounts for second homes are not taken into account, because doing so would not make it possible for authorities to retain the additional council tax income generated, contrary to the policy intention.

d) The total increase in the taxbase is then deducted from the taxbase reported on the 2005 September CTB1 form to put the figures on a comparable basis with those for 1 November 2003, as described above, in advance of calculating the annual average increase over the two years.

7. Any queries on this note should be addressed to Andrew Presland (0207 944 4166) or Daniel Kuszal (0207 944 6989).

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