

North Yorkshire County Council

Executive

18 October 2022

Council Tax Harmonisation

Report of the Corporate Director, Strategic Resources

1. **Executive Summary**

2. To advise the Executive of the recommendations of the Council Tax Harmonisation Member Working Group and the process by which it arrived at those recommendations

3. **Council Tax Harmonisation**

4. The Local Government Finance Act 1992 requires local authorities to set a single basic ["Band D"] amount of Council Tax for their area. Where local authorities merge or unitarise this means setting a single level of Council Tax across the local authority area.

5. Members requested that a number of Council Tax harmonisation options be modelled for North Yorkshire.

6. These scenarios included:

- The harmonisation of Council Tax levels on a straight line basis over 1,2,3,4 and 8 years, whilst maintaining the current weighted average to protect overall Council Tax yield;
- The harmonisation of Council Tax levels to the lowest predecessor Council Tax charge (Hambleton);
- The harmonisation of Council Tax levels to the highest predecessor Council Tax charge (Harrogate).

7. The Group concluded at an early stage that:

- Straight-line harmonisation was the most appropriate option as it was deemed to offer the fairest and most straight forward solution; and
- Council Tax yield should be protected and the weighted average Band D Council Tax charge should be maintained throughout the period of harmonisation.

8. The Group recognised that longer periods of harmonisation would result in prolonged perceptions of unfairness amongst residents, lead to additional administrative complexities and risks, and reduce future opportunities for transformational change. The Group identified that Hambleton was a particular outlier and that a Band D taxpayer within that area will face an £89.49 Council Tax uplift relating to harmonisation.

9. The Group concluded - through general consensus - that Council Tax charges across the North Yorkshire Council area be harmonised over two financial years, on a straight-line basis, commencing in 2023/24 and that the weighted average Council Tax figure be maintained over the period of harmonisation.

10. The key rationale for the Group's recommendation was as follows:

- Council Tax yield is maintained;
- A shorter period of harmonisation will help to minimise the perceived issues of unfairness associated with differential levels of Council Tax

- A decision to harmonise Council Tax charges over a two year period is unlikely to significantly affect the delivery of transformational change opportunities;
- Hambleton's residents would face a Council Tax increase of 8.8% for the year commencing 1 April 2023 if charges were fully harmonised in year one. The Group did not deem this level of increase to be acceptable over one year given that this would be the largest harmonisation increase in a single year for any predecessor council area in LGR;
- Hambleton's residents that are eligible for maximum CTR support will be financially better off, and will pay no Council Tax and, therefore, will be protected against Council Tax increases.

GARY FIELDING

Corporate Director, Strategic Resources

County Hall
Northallerton
7 October 2022

North Yorkshire County Council

Executive

18 October 2022

Council Tax Harmonisation

Report of the Chair of the Council Tax Harmonisation Member Working Group

1.0 Purpose of the Report

- 1.1 To advise the Executive of the recommendations of the Council Tax Harmonisation Member Working Group and the process by which it arrived at those recommendations.

2.0 Introduction

- 2.1 The Council Tax Harmonisation Member Working Group is one of seven such Groups that were established by the Executive at its meeting on 21st June 2022.
- 2.2 The Working Groups were set up to engage with Members on the necessary decision making processes that are required prior to vesting day for the new North Yorkshire Council – 1st April 2023.
- 2.3 The Working Groups were established as cross-party Task and Finish bodies to consider, review and make recommendations to the decision taking body on areas within their remit.
- 2.4 The Terms of Reference for the Council Tax Harmonisation Member Working Group (“the Group”) were straightforward - *To consider options regarding Council Tax Harmonisation.*

3.0 Background to Council Tax Harmonisation

- 3.1 The Local Government Finance Act 1992 requires local authorities to set a single basic [“Band D”] amount of Council Tax for their area. Where local authorities merge or unitarise this would mean setting a single level of Council Tax across the local authority area. The Government has recognised that this could result in large increases in some bills and / or a significant loss of income for the newly created authority and, therefore has introduced regulations to allow authorities to harmonise their Council Tax levels over a number of years should they wish to do so.
- 3.2 The regulations allow a newly created unitary authority to set different amounts of Council Tax in its predecessor areas for a period of up to seven years; with a uniform level of Council Tax being required by year eight. Each year the gap between the highest charging predecessor area and the others must narrow, however there is no minimum narrowing requirement.
- 3.3 The Localism Act includes the powers to allow local residents to veto excessive Council Tax rises and a referendum must be held if an authority sets a Council Tax level which is deemed to be excessive. The Secretary of State sets thresholds of excessiveness, known as ‘referendum principles’, for different classes of authority and these are usually announced on an annual basis through the Local Government Finance Settlement. The referendum threshold for the 2022/23 year was set at 3% for unitary councils; comprising 1% for expenditure on adult social care and 2% for other expenditure. The equivalent figure has yet to be announced for the 2023/24 financial year.

- 3.4 Referendum principles continue to apply whilst Council Tax rates are being harmonised and can be applied to the overall weighted average Band D charge for the whole area, or individually to the amounts set in each of the predecessor areas.
- 3.5 Table 1 below sets out the current Band D charges, Council Tax Base (i.e. number of Band D equivalent properties) and budgeted Council Tax yield for each of the predecessor areas within North Yorkshire, along with the weighted average Band D charge for the North Yorkshire Council area (£1,676.32).

Table 1 – Current Band D Council Tax Charges, Tax Base and Council Tax Yield

	Council Tax Base [A]	Current Band D Council Tax Charge* [B]	Council Tax Yield £m [A x B]
Craven	23,234	£1,654.56	£38.442
Hambleton	37,907	£1,586.83	£60.153
Harrogate	65,125	£1,723.27	£112.227
Richmondshire	19,787	£1,692.35	£33.486
Ryedale	22,227	£1,675.56	£37.243
Scarborough	38,694	£1,712.10	£66.248
Selby	32,768	£1,650.57	£54.085
TOTAL	239,742		£401.886
WEIGHTED AVERAGE BAND D CHARGE (Total Yield / Council Tax Base)			£1,676.32

* excluding parish and Police and Fire Crime Commissioner precepts

- 3.6 The total Council Tax yield will reduce if the weighted average Band D Council Tax charge is not maintained throughout the period of harmonisation, whilst any increase in the weighted average Band D charge will be considered alongside the referendum principles.

4.0 The work of the Group

- 4.1 The Group was chaired by Councillor Cliff Lunn. The full Membership and officer/external support, is attached to this report at **Appendix A**.
- 4.2 The Group was supported by officers from across North Yorkshire Council and two independent consultants: Adrian Jenkins from Pixel Financial Management and David Airey from ACS Limited. Pixel Financial Management are experts in local government finance and provide support and advice to over 160 local authorities, and ACS are experts in Business Rates, Council Tax and Welfare Benefits offering advice to a large number of individual authorities as well as being the appointed technical expert for the IRRV (Institute of Revenues Rating and Valuation). Both consultants have historically advised each of the predecessor Councils in their areas of specialism and have supported numerous Councils through Local Government Reorganisation.
- 4.3 The Group met on three occasions - 18th August, 1st and 15th September 2022.
- 4.4 The initial meeting was used primarily to enable Members to:-
- Understand the issue and the conundrum
 - Hear about the experience of other Authorities who have undergone LGR and the lessons learned
 - Understand the operational issues and risks
 - Understand interactions with other Council Tax issues.
- 4.5 The second meeting covered the financial modelling of a number of Council Tax harmonisation options and at the third and final meeting the Group agreed upon the recommendations set out within this report.

4.6 In addition, the Chair of the Member Working Group and the Corporate Director, Strategic Resources attended a meeting of the Transition (LGR) Overview & Scrutiny Committee on 21 September to update them on the work undertaken.

5.0 Financial Modelling of Council Tax Harmonisation options

5.1 Following the first session to determine the key issues, Members requested that a number of Council Tax harmonisation options be modelled. These scenarios included:

- The harmonisation of Council Tax levels on a straight line basis over 1,2,3,4 and 8 years, whilst maintaining the current weighted average to protect overall Council Tax yield;
- The harmonisation of Council Tax levels to the lowest predecessor Council Tax charge (Hambleton);
- The harmonisation of Council Tax levels to the highest predecessor Council Tax charge (Harrogate).

5.2 The financial modelling illustrated the impact on Band D Council Tax levels in each of the predecessor areas and this was considered alongside additional increases that might arise from the referendum principle thresholds. The outcome of the financial modelling is summarised below.

Harmonising on a straight line basis over varying years

5.3 A summary of the financial outcomes associated with the 1,2,3,4 and 8 year harmonisation periods requested by the Group is attached at **Appendix B**. The modelling applies harmonisation on a straight-line basis and maintains the weighted average Council Tax Band D charge in order to protect overall Council Tax yield.

5.4 The variations that would be required to fully harmonise Council Tax levels in year one (i.e. the financial year commencing 1 April 2023) are summarised in Table 2 below.

Table 2 – Council Tax variations to fully harmonise Council Tax levels in year one

PREDECESSOR AREA	£	%
Craven	£21.76	1.3%
Hambleton	£89.49	5.6%
Harrogate	(£46.95)	(2.7%)
Richmondshire	(£16.03)	(0.9%)
Ryedale	£0.76	0.0%
Scarborough	(£35.78)	(2.1%)
Selby	£25.75	1.6%

5.5 The range between the highest predecessor Council Tax charge (Harrogate) and the lowest (Hambleton) currently stands at £136.44. Table 2 shows that a move to the weighted average Council Tax figure over one year would increase Hambleton's charge by £89.49 (5.6%) and reduce Harrogate's charge by £46.95 (2.7%) with varying levels of impact across the other predecessor areas.

5.6 As the harmonisation scenarios were modelled on a straight-line basis, the variations shown in Table 2 can be spread over the number of years in which harmonisation occurs, to gauge the financial impact over longer harmonisation periods (i.e. if harmonisation occurred over two years the above variations can be halved, and over four years the variations can be quartered, etc.).

Harmonising to the lowest predecessor Council Tax charge

- 5.7 Hambleton's Band D Council Tax charge currently stands at £1,586.83. If the Council Tax charge across the North Yorkshire Council area were to be harmonised down to this level the estimated Council Tax yield would fall to £380.4m, compared to the current level of £401.8m. This equates to an annual reduction in yield of circa £21.5m.

Harmonising to the highest predecessor Council Tax charge

- 5.8 Harrogate's Band D Council Tax charge currently stands at £1,723.27. If the Council Tax charge were to be harmonised to this level, the estimated Council Tax yield would increase by £11.3m.
- 5.9 In this scenario the weighted average Council Tax for the authority would increase from £1,676.32 to £1,723.27 (2.8%) and this increase would be taken into account in the referendum principle calculations. If further referendum principle uplifts were applied to the Council Tax charge, a referendum would be required if the overall threshold was exceeded.

Council Tax uplifts relating to Referendum Principles

- 5.10 In addition to the Council Tax variations arising from harmonisation, Members also considered the uplifts that might arise from future referendum principle thresholds. These uplifts will increase existing Council Tax yield and, therefore, could be considered essential given the budget pressures and funding gaps that the new authority will face as a result of increasing pay awards and inflationary cost uplifts. While the Group recognised that council tax increases in line with the referendum were not within the remit of the Group, they wished to see the aggregate effect of harmonisation changes plus modelled council tax increases with the referendum principles.
- 5.11 The referendum principle thresholds for the 2023/24 year have yet to be announced, however assuming that the rate is maintained at the 2022/23 level (3%) the weighted average Band D Council Tax charge could be increased by up to £50.12. This increase would generate additional Council Tax yield of circa £12m per annum.
- 5.12 Table 3 below summarises the variations required to fully harmonise Council Tax levels in year one, including the additional estimated uplift associated with the referendum principles.

Table 3 – Council Tax variations to fully harmonise Council Tax levels in year one including estimated referendum principle uplift

PREDECESSOR AREA	£	%
Craven	£71.89	4.3%
Hambleton	£139.62	8.8%
Harrogate	£3.18	0.2%
Richmondshire	£34.10	2.0%
Ryedale	£50.88	3.0%
Scarborough	£14.35	0.8%
Selby	£75.88	4.6%

- 5.13 If this option was taken forward, the table shows that the maximum level of increase would be within the Hambleton area, with tax payers facing an aggregate annual Council Tax uplift of £139.62 (8.8%).

6.0 Other considerations

- 6.1 Advisors and officers identified a number of additional areas that the Group considered as part of their decision making process. The key areas are summarised below.

Issues of perceived fairness

- 6.2 The risk of dissatisfaction amongst residents was recognised both in terms of perceived unfairness, if differential Council Tax levels continue to be applied across the area, as well as the increases that need to be applied in some predecessor areas to harmonise to the weighted average Council Tax level.

Interactions with the Council Tax Reduction Scheme proposals

- 6.3 The proposals for the Council Tax Reduction (CTR) scheme were agreed by the Executive on 19 July and were subject to a period of consultation during the Working Group's sessions. Members of the Working Group were advised that the proposals being consulted upon would provide 100% CTR for those taxpayers eligible for maximum support.
- 6.4 The maximum amount of CTR relief currently available within the Hambleton, Craven and Scarborough areas stands at 90%, 90% and 87.5%, respectively, compared to 100% relief across the remaining areas. Based on current Council Tax charges, this means that a recipient of maximum CTR support within a Band D property in Craven must still pay £165.46 towards their Council Tax liability, those in Hambleton must pay £158.68 and those in Scarborough must pay £214.01.
- 6.5 If the final CTR proposals are in line with those consulted upon, this will mean that those recipients of maximum support in Hambleton, Craven and Scarborough will be financially better off and have no Council Tax to pay, regardless of any uplifts that are applied in respect of referendum principles or harmonisation. This is particularly pertinent for Hambleton tax payers given that they will be the ones that are most significantly affected by the harmonisation uplift.

Administrative and operations considerations

- 6.7 There are a number of operational and administrative considerations to take into account in the Council Tax harmonisation decision-making process. These include:
- Additional complexities for annual billing and the preparation of Council Tax demands and information leaflets
 - Additional complexities relating to the preparation of tax base calculations and the Council Tax resolution report for the new North Yorkshire Council
 - The ability to merge the legacy Revenues and Benefits systems used by the predecessor Districts, post vesting day
- 6.8 It was acknowledged that if differential Council Tax charges are in place across the predecessor areas it will add complexity to the annual billing and Council Tax setting process in terms of additional disclosure requirements and calculations. In turn, this will increase the risk of billing error, particularly given that there are in excess of 700 parish Council Tax charges that will attract differing levels of North Yorkshire Council charge, depending on the parish location.
- 6.9 Each of the District Councils use the same Revenues and Benefits system and these systems will be retained post vesting day. Transformational opportunities will arise from the merging of these systems and Revenues and Benefits Teams, although it is recognised that this will be an extensive piece of work and is unlikely to take effect within the first two years following vesting day. The transformational benefits will only be fully realised once Council Tax charges and policies are harmonised.

7.0 Findings and views of the Group

- 7.1 The Group took into account the information provided by officers and advisors and concluded at an early stage that:

- Straight-line harmonisation was the most appropriate option as it was deemed to offer the fairest and most straight forward solution; and
- Council Tax yield should be protected and the weighted average Band D Council Tax charge should be maintained throughout the period of harmonisation.

- 7.2 The above conclusions were reflected in the Group's review of the financial modelling options. The option to harmonise to the highest predecessor Band D Council Tax charge was quickly discounted on the basis that it would likely cause a breach of the referendum principle threshold, and the option to harmonise to the lowest predecessor charge was discounted on the basis that Council Tax yield would reduce by circa £21.5m per annum.
- 7.3 After discounting the above options the Group's considerations turned to the duration of the harmonisation period. The Group recognised that longer periods of harmonisation would result in prolonged perceptions of unfairness amongst residents, lead to additional administrative complexities and risks, and reduce future opportunities for transformational change. Conversely, the Group identified that Hambleton was a particular outlier and that a Band D taxpayer within that area will face an £89.49 Council Tax uplift relating to harmonisation and an overall uplift equating to 8.8% in the 2023/24 year, if referendum uplifts are applied and Council Tax charges are fully harmonised in year one (dependent on the level of the referendum principle threshold).
- 7.4 The Group did however note that, at £119.48, Hambleton District Council's current Band D Council Tax charge is significantly below the current English Shire District average of £199 and therefore will inevitably be flagged as an outlier in any harmonisation calculations.
- 7.5 In recognition of the above, the Group looked to explore options to achieve harmonisation in year one, whilst easing the burden for Hambleton residents through the use of reserves. Options were considered but, on balance, it was agreed that this would reduce the resources available to the new authority and bring added complexity and challenges of fairness, which would outweigh any benefits that might be derived from taking this approach.
- 7.6 Having regard to the information detailed in this report, the Group concluded - through general consensus - that Council Tax charges across the North Yorkshire Council area be harmonised over two financial years, on a straight-line basis, commencing in 2023/24 and that the weighted average Council Tax figure be maintained over the period of harmonisation.
- 7.7 The key rationale for the Group's recommendation was as follows:
- Council Tax yield is maintained;
 - The proposals will not result in excessive Council Tax increases and trigger a referendum;
 - A shorter period of harmonisation will help to minimise the perceived issues of unfairness associated with differential levels of Council Tax and reduce the risk of error and complexity with annual billing;
 - It is unlikely that a merged Revenues and Benefits system will be in place within two years of the new authority coming into existence. A decision to harmonise Council Tax charges over a two year period is therefore unlikely to significantly affect the delivery of transformational change opportunities;
 - Hambleton's residents would face a Council Tax increase of 8.8% for the year commencing 1 April 2023 if charges were fully harmonised in year one. The Group did not deem this level of increase to be acceptable over one year given that this would be the largest harmonisation increase in a single year for any predecessor council area in LGR;

- Hambleton's residents that are eligible for maximum CTR support will be financially better off, and will pay no Council Tax and, therefore, will be protected against Council Tax increases.

7.8 The Group explored Parish and Town Council issues, in terms of Harrogate and Scarborough, and the creation of Town Councils. It was agreed that this was a complex issue and the financial impact that this might have on Council Tax harmonisation was difficult to assess, given the range of functions within different Parish and Town Councils, and the autonomy that Parish and Town Councils have to set their own precepts. Based on the information provided, the Group agreed that the impact - if any - would be marginal therefore could be discounted in terms of the decision making process.

8.0 Financial Implications

8.1 The financial implications are detailed within the body of the report. In particular, Members may wish to note that:

- The recommendations will not impact on the Council Tax yield; and
- Transformational opportunities will arise from the merging of systems and Revenues and Benefits Teams once Council Tax charges and policies are harmonised. This, however, is unlikely to take full effect within the first two years following vesting day.

9.0 Legal Implications

9.1 These are set out in paragraphs 3.1 to 3.3.

10.0 Climate Change Assessment

10.1 An initial impact assessment has been completed. This indicates that a full assessment is not required as this is a financial / benefits policy change that has no direct impact upon climate issues.

11.0 Equality Implications

11.1 It is noted that there are some residents who will see an increase in council tax as a result of harmonisation but it is also recognised that the proposals on the application of the council tax reduction scheme also see increases in support for some of those residents who are on lower incomes. A formal EIA will be circulated in advance of any Executive recommendation to full Council following consideration of the Members Working Group

12.0 Conclusion

12.1 The Group recognise that no single option will satisfy everyone but, having carefully considered each scenario, it feels that, for the reasons set out above, a harmonisation period over two financial years, on a straight-line basis, with the weighted average Council tax figure being maintained, would be the fairest approach.

12.2 As a cross-party Group, Members worked collaboratively, seeking to reach a recommendation that would be both fair and workable.

13.0 Recommendation

11.1 That the Executive consider the contents of the report and the findings of the Working Group and recommend that Council approve:

- i. That the Council Tax levels for the North Yorkshire Council be harmonised over a two year period, commencing in the financial year commencing 1 April 2023;

- ii. That the weighted average Council Tax level be maintained for Council Tax harmonisation purposes and that harmonisation be applied on a straight-line basis over the two year period.

Councillor Cliff Lunn
Chair of Council Tax Harmonisation Member Working Group
County Hall, Northallerton
7 October 2022

Report Author: Kerry Metcalfe, Head of Finance, Scarborough Borough Council

Appendices:

Appendix A – Working Group Membership

Appendix B – Variations to existing Council Tax Levels in Year 1 (excluding Referendum Threshold Uplifts)

Membership

Council Tax Harmonisation Member Working Group		
	Name of Councillor	Political Group
1	Councillor Cliff Lunn (Chair)	Conservative
2	Councillor Richard Foster	Conservative
3	Councillor George Jabbour	Conservative
4	Councillor John Mann	Conservative
5	Councillor Heather Phillips	Conservative
6	Councillor Peter Wilkinson	Conservative
7	Councillor Bryn Griffiths	Liberal Democrat and Liberal
8	Councillor Neil Swannick	Labour
9	Councillor Janet Jefferson	North Yorkshire Independent
10	Vacancy	Green Party

Officer and external support	
Name	Role
Gary Fielding (NYCC)	Project Sponsor
Paul Foster (Harrogate Borough Council) Marcus Lee (Ryedale District Council) Kerry Metcalfe (Scarborough Borough Council) Alan McCarten (Scarborough Borough Council) Nick Morgan (NYCC)	Subject matter experts
Robert Ling (NYCC) Rachel Joyce (Harrogate Borough Council) Sarah Cornforth (Harrogate Borough Council)	Project Management Office
Louise Heaps (NYCC)	Leadership Support Team Leader
Patrick Duffy (NYCC) David Smith (Craven District Council)	Democratic Services
Adrian Jenkins	Director, Pixel Systems
David Airey	Director, ACS Limited

COUNCIL TAX HARMONISATION – SUMMARY OF MODELLING OUTCOMES

VARIATIONS TO EXISTING COUNCIL TAX LEVELS IN YEAR 1 (EXCLUDING REFERENDUM THRESHOLD UPLIFTS)

PREDECESSOR AREA	HARMONISATION PERIOD				
	1 YEAR	2 YEARS	3 YEARS	4 YEARS	8 YEARS
Craven	£21.76	£10.88	£7.25	£5.44	£2.72
Hambleton	£89.49	£44.75	£29.83	£22.37	£11.19
Harrogate	(£46.95)	(£23.47)	(£15.65)	(£11.74)	(£5.87)
Richmondshire	(£16.03)	(£8.01)	(£5.34)	(£4.01)	(£2.00)
Ryedale	£0.76	£0.38	£0.25	£0.19	£0.09
Scarborough	(£35.78)	(£17.89)	(£11.93)	(£8.94)	(£4.47)
Selby	£25.75	£12.88	£8.58	£6.44	£3.22

TOTAL COUNCIL TAX CHARGE IN YEAR 1 (EXCLUDING REFERENDUM THRESHOLD UPLIFT)

PREDECESSOR AREA	CURRENT CHARGE	HARMONISATION PERIOD				
		1 YEAR	2 YEARS	3 YEARS	4 YEARS	8 YEARS
Craven	£1,654.56	£1,676.32	£1,665.44	£1,661.81	£1,660.00	£1,657.28
Hambleton	£1,586.83	£1,676.32	£1,631.58	£1,616.66	£1,609.20	£1,598.02
Harrogate	£1,723.27	£1,676.32	£1,699.80	£1,707.62	£1,711.53	£1,717.40
Richmondshire	£1,692.35	£1,676.32	£1,684.34	£1,687.01	£1,688.34	£1,690.35
Ryedale	£1,675.56	£1,676.32	£1,675.94	£1,675.81	£1,675.75	£1,675.65
Scarborough	£1,712.10	£1,676.32	£1,694.21	£1,700.17	£1,703.16	£1,707.63
Selby	£1,650.57	£1,676.32	£1,663.45	£1,659.15	£1,657.01	£1,653.79
Year 1 differential between highest and lowest charge		-	£68.22	£90.96	£102.33	£119.39