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<b>REPORT TO:</b>	<b>FINANCE AND MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM: 10</b>
<b>DATE OF MEETING:</b>	<b>25<sup>th</sup> NOVEMBER 2021</b>	<b>CATEGORY: DELEGATED</b>
<b>REPORT FROM:</b>	<b>STRATEGIC DIRECTOR (CORPORATE RESOURCES)</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>VICKI SUMMERFIELD</b> <a href="mailto:Victoria.summerfield@southderbyshire.gov.uk">Victoria.summerfield@southderbyshire.gov.uk</a>	<b>DOC:</b> s/Finance/Committee/2021-22/November
<b>SUBJECT:</b>	<b>COLLECTION FUND 2021-22</b>	
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM08</b>

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## **1.0 Recommendations**

- 1.1 That the latest Collection Fund position as detailed in the report is considered and approved.

## **2.0 Purpose of the Report**

- 2.1 To provide an update on performance of the Collection Fund against the approved budget for quarter two of 2021/22.
- 2.2 The detail included within the report is at 30 September 2021 unless otherwise stated.

## **3.0 Detail**

- 3.1 The Collection Fund is a statutory requirement that accounts separately for the Council Tax and National Non-Domestic Rates (NNDR) collected by the Council.
- 3.2 The Council is classed as a Billing Authority for both Council Tax and NNDR and is responsible for distributing charges to residents and businesses located within the district annually.
- 3.3 Estimates of expected income generated from taxation charges are reported annually to the Government as part of the Council Tax Base and NNDR1 returns.
- 3.4 The returns are used to determine the precept due in the following financial year to the Preceptors and the Council's share is reported to the Committee as part of the budget round in February.
- 3.5 Any surplus or deficit generated on the Fund during the previous financial year is allocated to the relevant Preceptor as part of the annual forecast reporting.

## Council Tax

3.6 Council Tax was introduced on 1 April 1993 and each residential property is allocated a band according to their open market value at 1 April 1991. Detail of the bands is listed below.

Band	Between	
A	£0	£40,000
B	£40,001	£52,000
C	£52,001	£68,000
D	£68,001	£88,000
E	£88,001	£120,000
F	£120,001	£160,000
G	£160,001	£320,000
H	£320,001	and above

3.7 The amount of Council Tax payable by an individual household is calculated using the band allocation less deductions for national and local exemptions.

3.8 As part of the forecast for the following years precepts, the Council is required to calculate estimated chargeable dwellings, revised for estimated exemptions as noted above. An average Band D equivalent tax base is then determined and is used as the basis for the Council Tax setting by each of the Preceptors, including the Council.

3.9 The precept for each Preceptor is calculated using the estimated tax base multiplied by the Band D value. The Band D is reported annually to Full Council as part of the Council Tax Settling report. This report details out the approved Band D for each of the Preceptors and the demand on the Collection Fund in the following year.

3.10 The approved Band D and precept demands as set in March 2021 for 2021/22 are included as a reminder in the following table.

Preceptor	Band D £	Precept £
South Derbyshire District Council	167.96	5,915,215
Derbyshire County Council	1,383.07	48,708,959
Police and Crime Commissioner	241.60	8,508,669
Derbyshire Fire and Rescue Service	79.27	2,791,731
<b>TOTAL</b>	<b>1,871.90</b>	<b>65,924,574</b>

3.11 Parish Councils are also able to make a demand on the Collection Fund and this is approved as part of the Council Tax Setting report. The demand for Parishes in 2021/22 is £929,527.

3.12 The Council's forecast of collectable income for Council Tax in 2021/22 and the projected outturn for the year is summarised below with further detail included in **Appendix 1**.

	Forecast £'000	Q2 Projected £'000	Variance £'000
Council Tax Collectable	68,476	68,980	504
Expenditure	-68,224	-68,234	-10
<b>Estimated Surplus / (Deficit)</b>	<b>252</b>	<b>746</b>	<b>494</b>

3.13 Growth of the tax base during the year over and above that forecast is resulting in an expected increase in income. The number of chargeable dwellings included in the forecast was 46,311 with an average Band D equivalent number of 35,218. The actual chargeable dwellings at 30 September was 47,637, an increase of 1,326 with a Band D equivalent of 36,702, an increase of 1,484.

3.14 A surplus payment to the Preceptors of £1,200,000 was approved in January 2021 as part of the budget round for 2021/22 and is detailed below.

	£
Derbyshire County Council	880,948
Police and Crime Commissioner	144,241
Derbyshire Fire and Rescue	50,757
South Derbyshire District Council	124,054
	<b>1,200,000</b>

3.15 The surplus payment was a forecast of expected outturn for the year-end. The balance plus any estimate for 2021/22 will be approved as part of the budget round and paid to Preceptors in 2022/23. Based on the current anticipated surplus for the year plus the balance remaining in the Collection Fund Account, the payment in 2022/23 will be approximately £2,163,000 to be split between the Preceptors.

## **NNDR**

### **Background**

3.16 Taxation to fund local services has been in existence for over 50 years but under the Local Government Finance Act 1988, a consistent administrative assessment from 1 April 1990 in England and Wales was introduced in relation to property taxes.

3.17 The Valuation Office Agency (VOA) is responsible for setting the rateable value of business premises which is the average rental that could be achieved per annum at a fixed valuation date using assumptions set by statute.

3.18 A business within the district is charged annually by the Council based on the rateable value set by the VOA multiplied by the non-domestic rating multiplier which is set by the Government.

3.19 The chargeable amount can be altered with mandatory and discretionary reliefs and the overall rateable value can also be challenged and appealed by a business.

3.20 The retention of business rates for local authorities changed significantly on 1 April 2013. Prior to this date, business rates were collected by authorities and paid over to the Government, and this was then redistributed across the country by a set formula.

- 3.21 The introduction of a new funding system provided a direct financial incentive for authorities to work with local businesses to create a favourable environment for growth, but this also added more risk as bad debts, business failures and appeals are now partially borne by the authority.
- 3.22 Under the new system, a Start-up Funding Assessment was determined for each authority which reviewed the income required to fund services. The assessment set out a Baseline Need and this was split between Revenue Support Grant (RSG) and business rates.
- 3.23 To fund the Baseline Need, local authorities each had an expected level of business rates to be collected which was referred to as the NDR Baseline. For authorities with a Baseline Need that is higher than their NDR Baseline, a Top Up grant would be required. When the Baseline Need is lower than the NDR Baseline, a Tariff is payable by the authority. The Council pays a Tariff of over £6m per annum.
- 3.24 Authorities that collect a higher level of income than their NDR Baseline are rewarded through the scheme as they are able to keep a proportion of the growth. Where there is growth above the Baseline however, a levy becomes payable to the Government.
- 3.25 Where an authority does not achieve its allocated NDR Baseline, a safety net system was also introduced to ensure that income achieved below 92.5% of the Baseline would be reimbursed centrally. The first 7.5% would need to be covered locally. The safety net is funded by the levy noted in 3.24.
- 3.26 Authorities were able under the new scheme to combine into a Pool to retain more of the business rates income locally. All Top Up and Tariff allocations are combined as part of the Pool and one levy rate and safety net rate is then applied to any income growth/loss in the Pool.
- 3.27 The Council joined the Derbyshire Business rates Pool in 2015/16 after approval at the Committee in October 2014. The Council contributes to the Pool annually due to the growth above the Baseline, but the contribution is far lower than the levy imposed by the Government had the Pool not been in existence.

### **Local Performance**

- 3.28 Through the Collection Fund Account, precepts are paid to the Government (50%), Derbyshire County Council (9%), Derbyshire Fire and Rescue (1%) and South Derbyshire District Council (40%). The Council also has to fund the Tariff noted above which reduces the actual income retained to approximately 15%.
- 3.29 The NNDR1 return is completed in January each year, and this provides the forecasted income for the following financial year for all Preceptors. Within the return the surplus or deficit from the previous financial year is split between the Preceptors and paid/recovered as part of the precept payment. A summary of the return for 2021/22 is included below.

	Precept £	Deficit £	Total £
South Derbyshire District Council	11,141,791	-2,361,299	8,780,492
Central Government	13,927,239	-2,951,624	10,975,615
Derbyshire County Council	2,506,903	-531,292	1,975,611
Derbyshire Fire and Rescue	278,545	-59,032	219,513
	<b>27,854,478</b>	<b>-5,903,247</b>	<b>21,951,231</b>

3.30 The forecast collectable income as per the NNDR1 return versus the actual performance for quarter 2 is summarised below with further detail included in **Appendix 1**.

	Forecast £'000	Q2 Projected £'000	Variance £'000
NNDR Income (incl Relief)	28,597	25,382	-3,215
Expenditure	-28,597	-28,701	-104
<b>Estimated Surplus / (Deficit)</b>	<b>0</b>	<b>-3,319</b>	<b>-3,319</b>

3.31 Due to the pandemic which reduced income and increased bad debt and appeals provisions during 2020/21, a large deficit of £9.2m was made on the Fund. It was legislated to spread any deficit on the Fund over a three-year period to ensure that all Preceptors had a longer time frame to cover the loss in income.

3.32 As the impact of the pandemic has continued into 2021/22 with businesses not returning to normal trading conditions until August, further relief has been issued to the Council from the Government to help mitigate losses on the Fund. It is expected that a large deficit will be seen again in year, but it is still unknown to what degree. The third quarter should hopefully show an element of recovery on the Fund. The Government will cover losses on the Fund caused by increased statutory reliefs by issuing section 31 grants to the Council.

3.33 The Council set-aside £3.2m at the year-end to help mitigate the losses from business rates on the General Fund. This will be drawn down over a three-year period in line with the spreading of the deficit with £2.3m being draw down in 2021/22.

#### **4.0 Financial Implications**

4.1 Included within the report.

#### **5.0 Corporate Implications**

##### **Employment Implications**

5.1 None.

##### **Legal Implications**

5.2 None.

## **Corporate Plan Implications**

5.3 The ability to achieve all Corporate Plan objectives is dependent upon the financial sustainability of the Council.

### **Risk Impact**

5.4 None.

## **6.0 Community Impact**

### **Consultation**

6.1 None.

### **Equality and Diversity Impact**

6.2 None.

### **Social Value Impact**

6.3 None.

### **Environmental Sustainability**

6.4 None.

## APPENDIX 1

## COLLECTION FUND MONITORING 2021/22 (as at 30 September 2021)

	Actual 2020/21	Estimated 2021/22	Qtr 2 Projection 2021/22	Notes
<b>COUNCIL TAX - INCOME &amp; EXPENDITURE</b>	£'000	£'000	£'000	
<b>INCOME</b>				
Council Tax Collectable	65,215	68,476	68,980	Est. Increase in Tax Base and Precepts at 5%
<b>EXPENDITURE</b>				
County Council Precept	46,517	48,709	48,709	As approved by Full Council 1 Mar 2021
Police and Crime Commissioner Precept	7,812	8,509	8,509	As above
Fire and Rescue Authority Precept	2,680	2,792	2,792	As above
SDDC Precept	5,705	5,915	5,915	As above
SDDC Parish Precepts	848	929	929	As above
Increase in Bad Debts Provision	1,546	1,370	1,380	Estimated at 2% of income
<b>Total Expenditure</b>	<b>65,108</b>	<b>68,224</b>	<b>68,234</b>	
<b>Surplus for the Year</b>	<b>107</b>	<b>252</b>	<b>746</b>	
<b>COUNCIL TAX BALANCE</b>				
Opening Balance 1 April	3,310	2,617	2,617	Per Final Accounts 2020/21
Share of Previous Surplus to County Council	-587	-881	-881	As approved by Full Council 14 Jan 2021
Share of Previous Surplus to Police	-96	-144	-144	As above
Share of Previous Surplus to Fire Authority	-34	-51	-51	As above
Share of Previous Surplus to SDDC	-83	-124	-124	As above
Surplus for Year (as above)	107	252	746	
<b>Closing Balance as at 31 March</b>	<b>2,617</b>	<b>1,669</b>	<b>2,163</b>	

	Actual 2020/21	Estimated 2021/22	Qtr 2 Projection 2021/22	
	£'000	£'000	£'000	
<b>BUSINESS RATES - INCOME &amp; EXPENDITURE</b>				
<b>INCOME</b>				
Business Rates Collectable	19,572	28,308	25,093	Estimate as per NNDR1
Transitional Protection Payments	343	289	289	
<b>Total Income</b>	<b>19,915</b>	<b>28,597</b>	<b>25,382</b>	
<b>EXPENDITURE</b>				
Central Government Precept	13,862	13,927	13,927	
SDDC Precept	11,089	11,141	11,141	Per NNDR1 Submission
Derbyshire County Council Precept	2,495	2,507	2,507	As above
Fire and Rescue Service Precept	277	279	279	As above
Cost of Collection	93	94	94	As above
Increase in Bad Debts Provision	589	199	251	Estimated using debtor position at 31 Dec 20
Provision for Appeals	799	450	502	Estimated using appeals list at 31 Dec 20
<b>Total Expenditure</b>	<b>29,204</b>	<b>28,597</b>	<b>28,701</b>	
<b>Surplus / Deficit (-)</b>	<b>-9,289</b>	<b>0</b>	<b>-3,319</b>	
<b>BUSINESS RATES BALANCE</b>				
Opening Balance 1st April	1,155	-8,157	-8,157	Per Final Accounts 2020/21
Prior Year Share of Surplus (-) / Deficit to Government	36	2,952	2,952	Per NNDR1 Submission
Prior Year Share of Surplus (-) / Deficit to SDDC	-19	2,361	2,361	As above
Prior Year Share of Surplus (-) / Deficit to County	-40	531	531	As above
Prior Year Share of Surplus (-) / Deficit to Fire	0	59	59	As above
Surplus / Deficit (-) for the Year as above	-9,289	0	-3,319	
<b>Closing Balance as at 31 March</b>	<b>-8,157</b>	<b>-2,254</b>	<b>-5,573</b>	