

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 10
DATE OF MEETING:	16 MARCH 2023	CATEGORY: DELEGATED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
MEMBERS' CONTACT POINT:	CHARLOTTE JACKSON Charlotte.jackson@southderbyshire.gov.uk	DOC: s/Finance/Committee/2022-23/March
SUBJECT:	COLLECTION FUND 2022-23	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM08

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 three of 2022/23.
- 2.2 The detail included within the report is at 31 January 2023 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 2022 for 2022/23 are included as a reminder in the following table.

Preceptor	Band D £	Precept £
South Derbyshire District Council	172.91	6,346,143
Derbyshire County Council	1,424.56	52,284,201
Police and Crime Commissioner	251.6	9,234,223
Derbyshire Fire and Rescue Service	80.84	2,966,990
TOTAL	1,929.91	70,831,557

- 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 2022/23 is £986,564.
- 3.12 The Council's forecast of collectable income for Council Tax in 2022/23 and the projected outturn for the year is summarised below with further detail included in **Appendix 1**.

	Forecast £'000	Q3 Projected £'000	Variance £'000
Council Tax Collectable	72,882	73,284	402
Expenditure	-72,838	-72,844	-6
Estimated Surplus / (Deficit)	44	440	396

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 47,637 with an average Band D equivalent number of 36,702. The actual chargeable dwellings at 31 January was 48,448, an increase of 811 with a Band D equivalent of 37,663 an increase of 961.

3.14 A surplus payment to the Preceptors of ££2 million was approved in January 2022 as part of the budget round for 2022/23 and is detailed below.

	£
Derbyshire County Council	1,457,172
Police and Crime Commissioner	254,544
Derbyshire Fire and Rescue	83,517
South Derbyshire District Council	204,767
	2,000,000

3.15 The surplus payment was a forecast of expected outturn for the year-end. The balance plus any estimate for 2022/23 will be approved as part of the budget round and paid to Preceptors in 2023/24. Based on the current anticipated surplus for the year plus the balance remaining in the Collection Fund Account, the payment in 2023/24 is expected to be approximately £1 million 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 2022/23 is included below.

	Precept £	Deficit £	Total £
South Derbyshire District Council	10,838,722	-1,856,262	8,982,460
Central Government	13,548,403	-2,320,328	11,228,075
Derbyshire County Council	2,438,712	-417,659	2,021,053
Derbyshire Fire and Rescue	270,968	-46,407	224,561
	27,096,805	-4,640,656	22,456,149

3.30 The forecast collectable income as per the NNDR1 return versus the actual performance for quarter 3 is summarised below with further detail included in **Appendix 1**.

	Forecast £'000	Q3 Projected £'000	Variance £'000
NNDR Income (incl. Relief)	27,386	26,522	-864
Expenditure	-27,985	-27,967	18
Estimated Surplus / (Deficit)	-599	-1445	-846

3.31 As a result of the pandemic reduced income and increased bad debt and appeals provisions caused a large deficit of £9.2m on the Fund in 2020/21. 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 Further reliefs were distributed to the Council from the Government to help mitigate losses on the Fund. It is expected that a deficit will be seen again in year, but it is still unknown to what degree. Although it is not expected to be the same magnitude as seen previous years. The Council had additional section 31 grants during 2021/22 which have been earmarked for future income losses.

3.33 The Council set-aside £3.2m in 2020/21 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. At the year-end £2.1m was drawn down, and it is estimated that £375k will be drawn down in 2022/23.

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 2022/23 (as at 31 January 2023)

	Actual 2021/22	Estimated 2022/23	Qtr 3 Projection 2022/23	Notes
COUNCIL TAX - INCOME & EXPENDITURE	£'000	£'000	£'000	
INCOME				
Council Tax Collectable	69,412	72,882	73,284	Est. Increase in Tax Base and Precepts at 5%

EXPENDITURE				
County Council Precept	48,709	52,284	52,284	As approved by Full Council 1 Mar 2021
Police and Crime Commissioner Precept	8,509	9,234	9,234	As above
Fire and Rescue Authority Precept	2,792	2,967	2,967	As above
SDDC Precept	5,915	6,346	6,346	As above
SDDC Parish Precepts	929	987	987	As above
Increase in Bad Debts Provision	933	1,020	1,026	Estimated at 2% of income
Total Expenditure	67,786	72,838	72,844	
Surplus for the Year	1,626	44	440	

COUNCIL TAX BALANCE				
Opening Balance 1 April	2,617	3,043	3,043	Per Final Accounts 2021/22
Share of Previous Surplus to County Council	-881	-1,457	-1,457	As approved by Full Council 14 Jan 2022
Share of Previous Surplus to Police	-144	-255	-255	As above
Share of Previous Surplus to Fire Authority	-51	-84	-84	As above
Share of Previous Surplus to SDDC	-124	-205	-205	As above
Surplus for Year (as above)	1,626	44	440	

Closing Balance as at 31 March	3,043	1,087	1,483
--------------------------------	-------	-------	-------

	Actual 2021/22	Estimated 2022/23	Qtr 3 Projection 2022/23
	£'000	£'000	£'000

BUSINESS RATES - INCOME & EXPENDITURE
INCOME

Business Rates Collectable	24,474	27,097	26,233
Transitional Protection Payments	263	289	289
Total Income	24,738	27,386	26,522

Estimate as per NNDR1

EXPENDITURE

Central Government Precept	13,927	13,548	13,548
SDDC Precept	11,142	10,839	10,839
Derbyshire County Council Precept	2,507	2,439	2,439
Fire and Rescue Service Precept	279	271	271
Cost of Collection	94	97	97
Increase in Bad Debts Provision	107	249	249
Provision for Appeals	-708	542	525
Total Expenditure	27,348	27,985	27,967

Per NNDR1 Submission

As above

As above

As above

Estimated using debtor position at 31 Dec 22

Estimated using appeals list at 31 Dec 22

Surplus / Deficit (-)

-2,610	-599	-1,445
---------------	-------------	---------------

BUSINESS RATES BALANCE

Opening Balance 1 April	-8,157	-4,864	-4,864
Prior Year Share of Surplus (-) / Deficit to Government	2952	2,320	2,320

Per Final Accounts 2021/22

Per NNDR1 Submission

Prior Year Share of Surplus (-) / Deficit to SDDC	2361	1,856	1,856	As above
Prior Year Share of Surplus (-) / Deficit to County	531	418	418	As above
Prior Year Share of Surplus (-) / Deficit to Fire	59	46	46	As above
Surplus / Deficit (-) for the Year as above	-2,610	-599	-1,445	
Closing Balance as at 31 March	-4,864	-822	-1,669	