

REPORT FOR: **CABINET**

Date of Meeting:	8 December 2016
Subject:	Estimated Surplus / (Deficit) on the Collection Fund 2016-17
Key Decision:	Yes
Responsible Officer:	Dawn Calvert, Director of Finance
Portfolio Holder:	Councillor Adam Swersky, Portfolio Holder for Finance and Commercialisation
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All
Enclosures:	None

Section 1 – Summary and Recommendations

This report sets out the estimated financial position on the Collection Fund as at 31st March 2017 and how it is shared amongst the constituent precepting bodies and Central Government.

Recommendations:

Cabinet is asked to:

- (a) Note an overall net estimated surplus of £5.734m on the Collection Fund as at 31st March 2017.

This includes a surplus of £4.022m on Council Tax (Harrow share £3.246m) and £1.712m on Business Rates (Harrow share £0.514m).

- (b) Agree Harrow's share of £3.760m and this be transferred to the General Fund in 2017-18.

Reason: (For recommendations)

To report to Cabinet on the Council's statutory obligation to estimate the surplus or (deficit) on the Collection Fund for the year end. Approval to the recommendations set out is a major part of the annual budget review process.

Section 2 – Report

Introductory paragraph

1. The Council is required by statute to maintain a separate fund called the Collection Fund for the collection and distribution of amounts due in respect of council tax and national non domestic rates (NNDR). The arrangement in respect of council tax is that of an agent with 80.71% being retained by Harrow and 19.29% going to its preceptor Greater London Authority. For NNDR the Council is responsible for collecting and distributing the business rates they collect in the proportions 30% retained by Harrow, 20% to the Greater London Authority and 50% to Central Government.
2. Updated financial information for collection rates and required level of bad debt provision will be calculated for the year to 30th November and presented to the Committee at the meeting. This will result in minor changes to the figures that are contained in this report.

Options considered

3. The estimate of the surplus / (deficit) for the Collection Fund as at 31st March 2017 is made for the purpose of the 2017-18 budget. The estimated financial position of £5.734m as at 31st March 2017 is shown in the table below with the allocation between the stakeholders for both council tax and NNDR :-

	Council Tax (Table 1a)		NNDR (Table 2a)		Total
	%	£m	%	£m	£m
Harrow Council	80.7109	3.246	30	0.514	3.760
Greater London Authority	19.2891	0.776	20	0.342	1.118
Central Government			50	0.856	0.856
		4.022		1.712	5.734

Background

Council Tax

4. There are four main factors in the calculation of the estimated surplus / (deficit) on Council Tax:-
 - Surplus / (deficit) brought forward from the previous financial year;

- Change in the gross income due to variations in relation to discounts, exemptions and the cost of Local Council Tax Support Scheme;
- Increase to the tax base due to additional new properties being added to the Council Tax list ; and
- Increase / decrease in the level of bad debt provision (BDP).

Table 1a

Council Tax	Forecast £m
Net Yield	132.880
Losses in Collection & Increase in Bad Debt Provision	-2.220
Prior Year's Adjustment	1.250
Net Income	131.910
Precepts	
Harrow Council	-105.256
Greater London Authority	-22.632
Total Precepts	-127.888
Estimated Surplus / (Deficit)	4.022

5. This is the fourth year of the Local Council Tax Support Scheme. Claimants now all pay a minimum amount towards council tax or pay higher council tax due to lower financial awards.
6. The council tax collection rate for 2016-17 is on profile and is expected to exceed 97% in year which will be an excellent achievement. As the impact of localisation of Council Tax Support was not as high as originally expected, the budgeted collection was increased from 97.5% to 97.75% in 2016-17 and proposed that it increases again to 98% for the 2017-18 financial year
7. The table below summarises the total arrears position as at 31st October 2016 along with the bad debt provision required.

Table 1b

Council Tax	Arrears as at 31st October 2016 £m	BDP %	BDP requirement £m
Pre 2013-14	1.433	100	1.433
2014-2015	1.215	100	1.215
2015-2016	2.102	75	1.576
Total	4.750		4.224

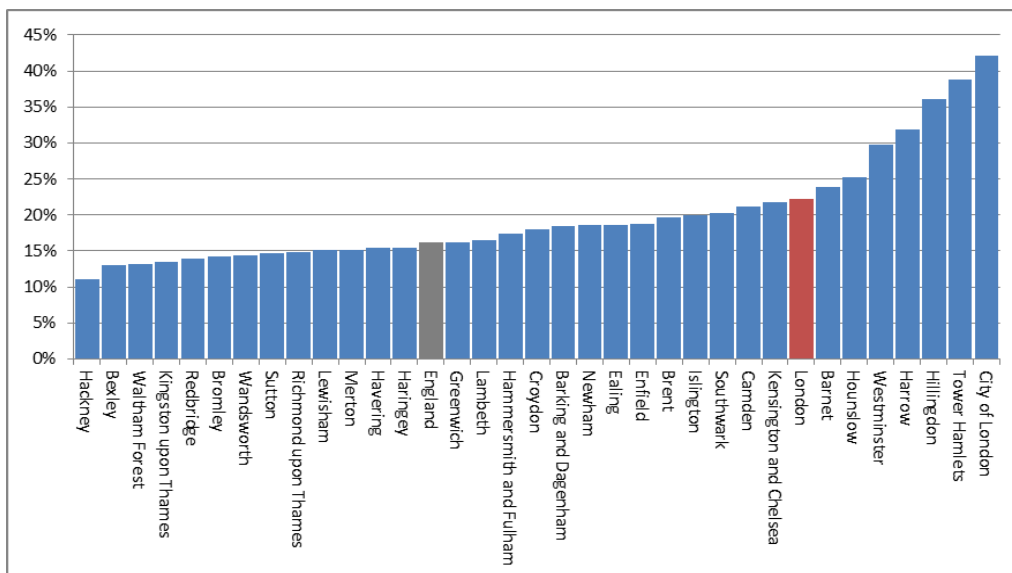
Business Rates Retention Scheme

8. The Business Rate Retention Scheme (BRRS) was introduced on 1st April 2013, as part of the move to localise and stimulate business growth at a local level. Under the BRRS the Authority pays 50% of its business rates income to Central government, 20% to GLA and retains the remaining 30%.
9. There are six main factors in the calculation of the estimated surplus / (deficit) on BRRS:-
 - Surplus / (deficit) brought forward from the previous financial year;
 - Change in the gross income due to variations relating to reliefs and exemptions ;
 - Change in the expenditure in relation to reliefs and exemptions;
 - Increase / decrease in the level of appeals against rateable values;
 - Increase / decrease in the level of bad debt provision (BDP); and
 - Increase / decrease in the tax base due to properties being added to or removed from the Business Rates valuation list.

Table 2a

Business Rates	Forecast £m
Net Yield	52.277
Cost of Collection	-0.249
Losses in Collection & Increase in Bad Debt Provision	-0.823
Increase in appeals provision	-8.600
Prior Year's adjustment	3.070
Net Income	45.675
Precepts	
Central Government 50%	-21.981
Greater London Authority 20%	-8.793
Retained by Harrow 30%	-13.189
Total Precepts	-43.963
Estimated Surplus / (Deficit)	1.712

10. We are now in the fourth year of the retention scheme under localisation. Trends are now emerging and the key one is that Harrow is losing substantial rateable value every year. This is mainly due to commercial properties being converted to domestic hereditaments or being in favour of new residential housing developments, and yield being lost due to the cost of dealing with Appeals.
11. The above and the fact that Harrow has received a disproportionate amount of appeals compared to other London Boroughs and indeed the rest of the country, has required increasing the Appeals provisions substantially.
12. Table showing - Unresolved Appeals as % of Total Hereditaments on the 2010 Local Rating List (English regions and Wales) as at 31 March 2016; source VOA



13. The table below shows the aged analysis of the debt as at 31st October 2016. The collection rate is slightly below the profile as the Council's predominant ratepayers (65%) are Small Medium Enterprises (SME). These small traders do not generally pay by the regular direct debit method of payment and as such this can cause collection challenges which contribute to Harrow's lower collection rates.

Table 2b

Business Rates	Arrears as at 31st October 2016 £m	BDP %	BDP requirement £m
Pre 2015-2016	1.115	100	1.115
2015-16	1.306	100	1.306
Total	2.421		2.421

Performance Issues

14. There are challenges in achieving the collection target due to the make up and affordability power of a large percentage of our ratepayers. Additionally 2017-18 will see the introduction of a new 2017 rating list which for Harrow shows an increase of 14.3% in its rateable value total compared with that of the 2010 list. This will translate into higher bills for ratepayers and will additionally add to the collection challenges.

Risk Management Implications

15. In view of historic trends, there is a risk that the Council's Business Rates income could reduce further. This would have an adverse impact on the Collection Fund's financial position.

- Risk included on Directorate risk register? Yes
- Separate risk register in place? No

Legal Implications

16. The Local Authorities (Funds) (England) Regulations 1992 (SI 2428) requires the billing authority to estimate the surplus or (deficit) on its Collection Fund by 15th January each year, or the first working day thereafter if the 15th falls on a weekend or bank holiday.

17. The Non-Domestic Rating (Rates Retention) Regulations 2013 (SI 452) requires the billing authority to estimate the surplus or (deficit) for business rates on or before 31st January each year.

Financial Implications

18. Financial matters are integral to the report.

Equalities implications / Public Sector Equality Duty

19. There are no direct equalities impacts arising from the decisions within this report.

Council Priorities

20. This report deals with the Collection Fund which is a key part of the budget setting process and therefore helps deliver the Council's vision and priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 25 November 2016		
Name: Paresh Mehta	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 21 November 2016		

Ward Councillors notified:	NO as it impacts on all Wards
EqIA carried out: EqIA cleared by:	No There are no direct equalities impacts arising from the decisions within this report.

Section 4 - Contact Details and Background Papers

Contact: Paul Gower (Interim Technical Accounting Manager)
paul.gower@harrow.gov.uk, Telephone 0208 424 1335

Background Papers:

- The Local Authorities (Funds) (England) Regulations 1992
<http://www.legislation.gov.uk/ukpga/1992/14/contents>
- The Non-Domestic Rating (Rates Retention) Regulations 2013
<http://www.legislation.gov.uk/ukdsi/2013/9780111532959/contents>
- Statement of Accounts 2015-16
http://www.harrow.gov.uk/download/downloads/id/8959/audited_statement_of_accounts_2015_16

**Call-In Waived by the
Chairman of Overview
and Scrutiny
Committee**

NOT APPLICABLE

[Call-in applies]