
REPORT FOR: CABINET

Date of Meeting:	17 December 2020
Subject:	Estimated Surplus / (Deficit) on the Collection Fund 2020-21
Key Decision:	Yes
Responsible Officer:	Dawn Calvert, Director of Finance, Resources Directorate
Portfolio Holder:	Adam Swersky Finance, Portfolio Holder for Finance and Resources
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 2021 and how it is shared amongst the constituent precepting bodies and Central Government.

Recommendations:

Cabinet is asked to:

- (a) Note an overall net estimated deficit of (£29.569m) on the Collection Fund as at 31st March 2021.

This includes a surplus of £7k on Council Tax (Harrow share –

£6k and a deficit of (£29.576m) on Business Rates (Harrow share (£8.873m).

- (b) Agree Harrow's share of (£8.867m) and this be transferred to the General Fund in 2021-22.

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 82.04% being retained by Harrow and 17.96% 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, 37% to the Greater London Authority and 33% to Central Government (MHCLG).

2. Collection Fund Position

The estimate of the surplus / (deficit) for the Collection Fund as at 31st March 2021 is made for the purpose of the 2021-22 budget. The estimated financial position of (£29.393m) as at 31st March 2021 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	82.04	0.006	30	(8.873)	(8,867)
Greater London Authority	17.96	0.001	37	(10,943)	(10.942)
Central Government			33	(9.760)	(9.760)
		0.007		(29.576)	(29.569)

3. Reasons for Deficits / Surpluses

Specific to 2020/21

With regards Council Tax, a larger deficit would have materialised this year due to higher provisions for bad debt being required above the 2% provided, and also due to 1700 or so additional households claiming CTS in year due to the pandemic which lowered yield substantially. However, this was largely mitigated and offset by tax base growth in year, with a few hundred new properties coming on stream, and the fact that existing bad

debt provisions were high therefore negating the need to raise them beyond the 2% set aside.

The Business Rates deficit occurred mainly due to Central Government having elected to provide retail relief to a wider category of businesses for the financial year 2020/21 and having increased this relief to 100%. This in effect exempted around 1,600 retail businesses from paying any business rates at all. This impacted the yield and created a deficit of approximately £30m overall. Central Government has provided grants to offset Harrow's loss in yield, so whilst the general fund will be paying the Harrow proportion of the loss, this has already been offset by the additional estimated £8.757m s31 grant leaving Harrow no worse off.

General - 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 council tax 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).
5. The council tax in year collection rate for 2020-21 is on profile and is expected to exceed 96.5% in year. For 2020-21 the overall budgeted collection percentage over time is 98%, and it is proposed that it remains at 98% for the 2021-22 financial year

General - Business Rates Retention Scheme

6. 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 currently retains 30%, the GLA, 37% and MHCLG retains the remaining 33%.
7. 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.
8. The collection rate is slightly below the national trend but this is due to the fact that Harrow'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.

Performance Issues

9. There are challenges in achieving the collection target due to the make up and affordability power of a large percentage of our ratepayers.

Procurement Implications

10. There are no procurement implications arising from the Recommendations of this report.

Risk Management Implications

11. The outcome of the surplus or deficit estimated calculation impacts on the future financial year's budget as it is a first call on that future budget should there be a deficit which needs funding. Officers have estimated the surplus/deficit by adhering to provisions and appeals guidance regarding the amounts that are required taken into account current level of arrears or appeals lodged or that may be lodged in future.

12. However, there are risks which should be considered as set out in the table below.

Risk Identified	Mitigations
Calculation is inaccurate	Processes in place to validate surplus or deficit calculations.
Potential unexpected increases in CTS caseload, both pensioner and working age, which may mean a bigger deficit on council tax if CTS support is above that budgeted for because of <ol style="list-style-type: none"> 1. On-going pandemic 2. Lower collection rates due higher unemployment 	<p>The surplus deficit simply represents the snapshot position expected as at 31st of March. Any differences would be accounted for once actuals are known, as part of the new financial year's calculation, therefore not affecting 2021/22 financial year, but 2022/23.</p> <p>Government issued guidance on spreading deficits over 3 years where deficits are substantially higher than expected due to such factors. This will mean that the collection fund would be adversely affected in the first instance, not the revenue budget, and there would be no immediate risk to the budget. This would allow the local authority up to 3 years to clear the collection fund deficit therefore giving Harrow time to plan to clear any shortfall without endangering the 2021/22 budget.</p>
The larger than expected NDR deficit impacts Harrow	The £29m plus NDR deficit is 100% due to Government changing the rules regarding retail relief. Harrow will be compensated 100% for their lost share of rate retention via s31 grant and as such bears no cost.

Risk included on Directorate risk register? No

Separate risk register in place? No but part of overall budget risks

Legal Implications

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

14. The Non-Domestic Rating (Rates Retention) Regulations 2013 (SI 452) requires the billing authority to estimate, for the relevant year, the surplus or (deficit) for business rates on or before 31st January each year.
15. Article 13 of the Council's Constitution states a key decision is an executive decision which:
- (i) is likely to result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budget for the service or function to which the decision relates; or
 - (ii) is likely to be significant in terms of its effects on communities living or working in an area of two or more wards of the Borough.
16. A decision is significant for the purposes of (i) above if it involves expenditure or the making of savings of an amount in excess of £1m for capital expenditure or £500,000 for revenue expenditure or, where expenditure or savings are less than the amounts specified above, they constitute more than 50% of the budget attributable to the service in question.

Financial Implications

17. Financial matters are integral to the report. High collection rates feed into the budget and it is imperative that this level of performance continues, specifically regarding Council Tax as this is now the Council's largest income stream. Harrow's rates compare well with the national position and against London.

Equalities implications / Public Sector Equality Duty

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

Council Priorities

19. 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

Statutory Officer: Sharon Daniels

Signed on behalf of the Chief Financial Officer

Date: 13 November 2020

Statutory Officer: Sarah Wilson

Signed on behalf of the Monitoring Officer

Date: 13 November 2020

Statutory Officer: Nimesh Mehta

Signed on by the Head of Procurement

Date: 16 November 2020

Statutory Officer: Charlie Stewart

Signed by the Corporate Director

Date: 16 November 2020

Statutory Officer: Susan Dixon

Signed by the Head of Internal Audit

Date: 1 December 2020

Mandatory Checks

Ward Councillors notified: NO, as it impacts on all Wards

EqlA carried out: NO

EqlA cleared by: N/A

Section 4 - Contact Details and Background Papers

Contact:

Fern Silverio (Head of Service – Collections & Housing Benefits),
Tel: 020-8736-6818 / email: fern.silverio@harrow.gov.uk

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>

Call-in waived by the Chair of Overview and Scrutiny Committee

NO