

Report for: Cabinet

Date of Meeting:	9 th December 2021
Subject:	Estimated Surplus / (Deficit) on the Collection Fund 2021-22
Key Decision:	Yes
Responsible Officer:	Dawn Calvert - Director of Finance
Portfolio Holder:	Councillor Natasha Proctor – 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 2022 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 £21.069m on the Collection Fund as at 31st March 2022.

This includes a deficit of £421k on Council Tax (Harrow share – £343k and a deficit of £20.648m on Business Rates (Harrow share (£6.194m).

(b) Agree Harrow's share of (£6.537m) and this be transferred to the General Fund in 2022-23.

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 nondomestic rates (NNDR / Business Rates). The arrangement in respect of council tax is that of an agent with 81.47% being retained by Harrow and 18.53% 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.

2. Collection Fund Position

Before we set out the reasons for this year's deficit, it is worth setting out last year's position and how that was funded.

In last year's Cabinet report, the following deficit for 2020/21 was set out.

	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)

Although this was a very large deficit, mostly it was due to changes in legislation and losses directly linked to the Covid 19 pandemic for which Harrow received compensation from Central Government. The LBH share of the deficit which needs to be paid into the collection fund in 2021/22 is however not the £8.867m but £8.072m, the difference being the amount that Harrow is required to spread and pay in future years (in relation to deficits for the 2020/21 financial year only), and the fact that there was an overall Council Tax surplus last year of £185,627 when taking all council tax years into consideration.

The table below sets out the additional compensation monies received and how they offset the deficit, both regarding the amounts payable this year

and in future years, taking into account the compulsory spreading of the financial year 2020/21 deficits over 3 years.

Table 1a

Collection Fund Liabilities re 2020/21 To be paid into Collection Fund to cover Harrow's share of the deficit of £8.867m in 2021/22 taking into account mandatory spreading	2020/21 Cabinet Report Figures	Less spreading adjustment	To be paid into collection fund in 2021/22
NDR – Deficit as per last years Cabinet report	8,868,633	-600,414	£8,268,219
CTAX – Surplus as per last years Cabinet report	-5,448	-180,180	-£185,628
Total			£8,082,591

Table 1b

Reserves- Additional Income received from Central Gov to cover 2020/21 deficit	Balance of S31 Grant to offset losses due to retail relief	TIG (total income compensation) scheme for loss of Ctax	TIG compensation scheme for Loss of NDR	Running totals
	£8,069,938	£398,960	£455,955	-£8,924,853
Less Payment to collection fund 2021/22				£8,082,591
Reserves balance c/fwd as required to clear deficit spread in future years				-£842,262

As can be seen from the above, there were sufficient monies in the reserves to cover the commitment to the collection fund for the previous year.

3. Specific to 2021/22 - Surplus / Deficits

The estimate of the surplus / (deficit) for the Collection Fund as at 31st March 2022 is made for the purpose of the 2022-23 budget. The estimated financial position of (£21.069m) as at 31st March 2022 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	81.47	(0.343)	30	(6.194)	(6.537)
Greater London Authority	18.53	(0.078)	37	(7.640)	(7.718)
Central Government			33	(6.814)	(6.814)
		(0.421)		(20.648)	(21.069)

With regards Council Tax, a larger deficit would have materialised this year due to the large increase in working age households claiming council tax support compared to what was expected. However, this appears to have plateaued and even started to reduce slightly and has also been offset partly by better than expected property growth and better than anticipated collection performance which allowed the release of previously set aside bad debt provisions. Arrears continue to be almost 100% covered by bad

debt provisions therefore minimising risk. The deficit has largely been contained and could have been much worse considering the challenges over the last year.

The majority of the Business Rates deficit occurred due to Central Government having elected to continue to provide retail relief (post settlement announcement) to business rate payers for the financial year 2021/22. This resulted in around 1,600 retail businesses paying reduced business rates which impacted the yield and created a deficit of approximately £17.5m overall. The resulting deficit is due to Harrow's rateable value continuing its historical yearly reductions which has seen the overall rateable value reduce by approximately £2m or 1.5% in the past 12 months.

Regarding retail relief, Central Government will pay an additional s31 grant to compensate for this loss in yield, so whilst the general fund will be paying the Harrow proportion of the loss, this is almost all offset by the additional estimated £5.25m s31 grant leaving Harrow only slightly worse off. The table below sets out how the deficit is expected to be funded.

Table 2a

Collection Fund Liabilities re 2021/22 To be paid into Collection Fund to cover Harrow's share of the deficit of £6.537m in 2022/23 taking into account mandatory spreading	2021/22 Deficit Figures	Less spreading adjustment	To be paid into collection fund in 2022/23
NDR – Deficit as per this Cabinet report	£6.194m	£0.303m	£5.891m
CTAX – Deficit as per this Cabinet report	£0.343m	£0.090m	£0.253m
Total			£6.144m

Table 2b

Reserves & additional Income expected to be received from Central Gov to cover 2021/22 deficit	Expected additional S31 Grant to compensate for losses due to retail relief	C/fwd ring fenced Reserves *see table 1b above	Running totals
	£5.250m	-£0.842m	-£6.092m
Less Payment to collection fund 2022/23			£6.144m
Charge to 2022/23 general fund			£0.052m

It should be noted that whilst there is a minimal deficit of £51,738 which will be a call on the general fund in 2022/23, there will however still be a need for a further call from the general fund in 2023/24 to cater for the 3rd year spread amount of £393k (£303k NDR & £90K Ctax). This will however be dealt with within the MTFs refresh for the 2023/24 budget.

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 2021-22 is on profile and is expected to exceed 96% in year. For 2021-22 the overall budgeted collection percentage over time is 98%, and it is proposed that it remains at 98% for the 2022-23 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.

12.

Risks included on corporate or directorate risk register? **No**

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

The relevant risks contained in the register are attached/summarised below.

n/a

The following key risks should be taken onto account when agreeing the recommendations in this report:

Risk Identified	Mitigations	RAG
Non-compliance with legislative requirements to estimate the surplus or deficit on the Collection Fund	A deficit has been estimated for 2021/22 as per the main body of the report	Green
The deficits identified in 2020/21 & 2021/22 will detrimentally impact the MTFS.	Whilst these are one offs to clear the deficit over time due to the mandatory spreading, it should be noted that whilst the additional s31 and TIG (total income compensation) grants received covered almost all losses in 2020/21, they were however insufficient to cover all Covid related NDR & Ctax losses in 2021/22.	Yellow
Calculation is inaccurate	Processes in place to validate surplus or deficit calculations. Officers have estimated the surplus/(deficit) by adhering to provisions and appeals guidance regarding the amounts that are required, taking into account current level of arrears or appeals lodged or that may be lodged in future	Green
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 1. On-going pandemic 2. Lower collection rates due to higher unemployment	The surplus / deficit simply represents the snapshot position expected as at 31 st March. Any differences would be accounted for once actuals are known, as part of the new financial year's calculation, therefore not affecting 2022/23 financial year, but 2023/24. 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 an additional year to clear the collection fund deficit therefore giving Harrow time to plan to clear any shortfall without endangering the 2022/23 budget.	Yellow
The larger than expected NDR deficit impacts Harrow	Harrow's retention from business rates is around £15m. Detrimental impacts on collection performance or bad debt provisions will therefore be proportionate to the income. As such this does not pose a huge risk. However, if Government changes the rules regarding retail relief, Harrow will be compensated 100% for their lost share of rate retention via s31 grant and as such will bear no cost.	Green

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.

The deficits will impact the MTFS. For 2022/23 there will be a £52k cost to the general fund and in 2023/24 a further £393k. Whilst these are one offs to clear the deficit over time due to the mandatory spreading, it should be noted that whilst the additional s31 and TIG (total income compensation) grants received covered almost all losses in 2020/21, they were however insufficient to cover all Covid related NDR & Ctax losses in 2021/22.

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: Dawn Calvert

Signed off by the Chief Financial Officer

Date: 26 November 2021

Statutory Officer: Paresh Mehta

Signed on behalf of the Monitoring Officer

Date: 29 November 2021

Chief Officer: Charlie Stewart

Signed off by the Corporate Director

Date: 26 November 2021

Head of Procurement: Nimesh Mehta

Signed by the Head of Procurement

Date: 29 November 2021

Head of Internal Audit: Susan Dixon

Signed by the Head of Internal Audit

Date: 29 November 2021

Mandatory Checks

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

EqlA carried out: NO

This is a technical financial report which does not require an EqlA.

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