

<b>DECISION-MAKER:</b>	COUNCIL		
<b>SUBJECT:</b>	COLLECTION FUND OUTTURN 2013/14		
<b>DATE OF DECISION:</b>	16 JULY 2014		
<b>REPORT OF:</b>	CABINET MEMBER FOR RESOURCES AND LEISURE		
<b><u>CONTACT DETAILS</u></b>			
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#### STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

#### BRIEF SUMMARY

The purpose of this report is to inform Council of the actual payments that have been made to and from the Collection Fund during the financial year 2013/14, explaining any variations that affect the overall surplus or deficit on the account.

From 1 April 2013 the arrangements in respect of NNDR changed from a position where the Authority purely collects business rates on behalf of Central Government to one where this income is shared between Central Government, Local Authorities and major precepting bodies, (Hampshire Fire and Rescue Authority (HFRA)).

This change requires the Collection Fund (Surplus)/ Deficit to be split between that arising from Council Tax ratepayers and that arising from NNDR ratepayers.

The Collection Fund was in deficit by £16.7M in 2013/14 which was made up as follows:

	<b>£'000</b>
Council Tax Ratepayers – (Surplus)	(1,076)
NNDR Deficit	17,801
<b>Net Deficit on the Collection Fund</b>	<b>16,725</b>

The impact of any surplus or deficit on future Council Tax calculations is outlined in paragraphs 25 and 26.

The Collection Fund was in deficit by £16.7M in 2013/14. This is a difference of £376,100 when compared to the revised estimate which anticipated a deficit of £17,101 (see Appendix 1). The reduction in the deficit compared to the estimate is due to a decrease in the Council Tax bad debt provision (£141,800), increased income from Council Tax Payers (£388,600), decreased income from NNDR Ratepayers £1,838,700, and a decrease in both the NNDR bad debt provision and the appeals provision of (£330,500) and (£1,353,900) respectively. A complete variance analysis is included in paragraphs 17 to 24.

## **RECOMMENDATIONS:**

### **It is recommended that council:**

- (i) Notes the accounts for the Collection Fund in 2013/14 as shown in Appendix 1.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. The report and recommendations have been prepared as part of the statutory accounts.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

2. No alternative options are relevant to this report

### **DETAIL (Including consultation carried out)**

#### **CONSULTATION**

3. Not Applicable.

#### **FINANCIAL SUMMARY**

4. Income received into the Collection Fund comes from two sources, NNDR and Council Tax. Until 2013/14 income received from NNDR payers was paid in full to the Central Government NNDR Pool after a contribution had been made to the City Council's General Fund to meet the costs of collection. The net effect of NNDR on the Collection Fund was therefore neutral. However, from 2013/14, due to the localisation of Business Rates under the Business Rate Retention (BRR) Scheme, NNDR variances now have an impact on the Collection Fund Outturn.
5. The remainder of the income received by the Collection Fund is the income due from Council Tax Payers. Some households are entitled to various allowances to the standard rate including the Single Person Discount and Council Tax Benefit that reduce the amount that they are required to pay. Until 2013/14 the cost of Council Tax Benefit was met in full by Government subsidy. However, from 2013/14 onwards this is no longer the position due to ending of Council Tax Benefit and the introduction of a Local Council Tax reduction scheme.
6. No local Council Tax discounts have applied in 2013/14.
7. The income due from Council Tax Payers is intended to match the expenditure on the Collection Fund. Expenditure consists of the amounts that are paid to those bodies that are entitled to make a demand (precept) on the Fund, together with a provision for bad debts. For Southampton, the City Council, the Hampshire Police Authority and the Hampshire Fire and Rescue Authority (HFRA) levied a precept on the Fund in 2013/14.

## **OUTTURN POSITION 2013/14**

8. The overall position on the Council Tax Collection Fund at 31 March 2014 is illustrated in Appendix 1. This shows that a deficit of £16.7M has been made in the year. After adjusting for the surplus brought forward from 2012/13 of £1.5M, a deficit of approximately £15.2M is to be carried forward i.e. a Council Tax Surplus of £2.6M and an NNDR Deficit of £17.8M.

### **Council Tax**

9. When setting the Council Tax for 2014/15 in February 2014, it was estimated that there would be a Council Tax surplus of £2.1M to be carried forward. This estimated surplus was taken into account in setting the 2014/15 Council Tax and was shared by the City Council, the Police & Crime Commissioner for Hampshire and the HFRA in proportion to the precepts levied by each authority in 2013/14, the Council's share was £1.78M.
10. This leaves a surplus of £530,400 that will be carried forward to 2014/15 to be shared between the precepting authorities in proportion to the precepts levied in this year. Southampton City Council's element will then be taken into account when the Council Tax for 2015/16 is set

### **NNDR**

11. From 1 April 2013 the arrangements in respect of NNDR changed from a position where the Authority purely collected business rates on behalf of Central Government to one where this income is shared between Central Government, Local Authorities and major precepting bodies, (Hampshire Fire and Rescue Authority (HFRA) in Southampton's case). This change affects the retention of that income collected and also carries a risk to the Council for failure to collect rates in comparison with a predetermined "Start-Up" funding assessment. Risks of non-collection include rates billed from 1 April, those not yet collected from prior years and appeals that were not resolved before that date.
12. The Council, in preparing the 2013/14 NNDR 1 return to Government of the estimate of the projected income for the year, significantly underestimated, along with a large number of councils across the country, the impact of potential losses for prior years' appeals as at 31 March 2013 at £5.8M
13. A detailed analysis of refunds made over a number of years, and appeals yet to be settled, indicated that the starting appeals provision for 2013/14 should have been approximately £21.4M, of which £14.1M related to prior years' appeals.
14. This underestimate of the starting appeals provision, along with a substantial reduction to Southampton's rateable value, has resulted in an NNDR Collection Fund deficit in 2013/14 of approximately £17.8M of which Southampton's share is £8.7M (49%). The Council has opted not to spread the impact of the appeals provision over five years, as allowed under the recently laid regulations, resulting in a safety net payment to the Council of approximately £1.6M.
15. When setting the Council Tax for 2014/15 in February 2014, it was estimated that there would be an NNDR deficit of £17.6 M of which the Council's share is £8.6M to be carried forward. This estimated deficit was taken into account in

setting the 2014/15 Council Tax.

16. This leaves a deficit of £154,300 that will be carried forward and taken into account when setting the 2015/16 Council Tax.

## EXPLANATION OF VARIANCES

### Council Tax

17. Income due from Council Tax payers has increased slightly by £388,600 (0.45%) compared to the revised estimate of £85.4M which is not material.
18. The other variance on Council Tax is the Bad Debt Provision. All authorities are required to make provision for Council Tax bills that may have to be written off if full payment is not received. The level of provision required is reviewed each year based on the total level of arrears outstanding. An analysis of the status of the arrears as at 31 March 2014 suggests that the following provisions are required:

Year	£000's
Prior Years	329
2007/08	358
2008/09	573
2009/10	687
2010/11	923
2011/12	1,201
2012/13	1,558
2013/14	1,470
<b>Total</b>	<b>7,099</b>

19. The bad debt provision available at the end of the year was £5.4M after allowing for amounts that had been written off in respect of previous years' arrears. To achieve the suggested level of £7.1M a contribution of £1.7M needs to be made to the Provision for Bad Debts in the year, a decrease of £141,800 compared to the revised estimate. When setting the estimate a prudent assessment was made of the impact of the economic climate on the arrears position and the resulting bad debt provision required has been more favourable.
20. The bad debt provision of £7.1M compares to a total arrears figure of £10.0M which represents 71% of the total amount outstanding. The total level of arrears also needs to be seen in the context that over the last eight years total debts of £740.6M have been raised.

### NNDR

21. Income due from NNDR Ratepayers has decreased by £1,837,800 (1.8%)

compared to the revised estimate of £101.6M, £1,381,200 of this decrease is due to a reduction in the Rateable value, the balance being a net increase in reliefs granted.

22. There was also a variance on the NNDR Bad Debt Provision. All authorities are required to make provision for NNDR ratepayers bills that may have to be written off if full payment is not received. The level of provision required is reviewed each year based on the total level of arrears outstanding. An analysis of the status of the arrears as at 31 March 2014 suggests that the following provisions are required:

<b>Year</b>	<b>£000's</b>
Prior Years	99
2010/11	71
2011/12	178
2012/13	379
2013/14	522
<b>Total</b>	<b>1,249</b>

23. The bad debt provision available at the end of the year was £0.3M after allowing for amounts that had been written off in respect of previous years' arrears. To achieve the suggested level of £1.3M a contribution of £1.0M needs to be made to the Provision for Bad Debts in the year, a decrease of £330,500 compared to the revised estimate. When setting the estimate a prudent assessment was made of the impact of the economic climate on the arrears position and the resulting bad debt provision required has been more favourable.
24. As noted in paragraphs 12 and 13 the initial Appeals provision of £5.8m at the NNDR1 stage was significantly under estimated and based on a detailed analysis of refunds and appeals outcomes should have been approximately £21.4M. Although, the total appeals provision has not changed it was estimated that the year end appeals provision would be £16.5M instead of £15.1M required giving rise to an increase in income of £1,353,900.

#### **FUTURE YEAR'S COUNCIL TAX**

25. The surplus of £530,400 on the Council Tax element of the Collection Fund, as explained in paragraphs 9 to 10 will be shared between Southampton City Council the Police & Crime Commissioner for Hampshire and the HFRA, based on the precepts levied on the Fund in 2014/15. Southampton's share of this surplus which amounts to £454,400 will be taken into account when setting the 2015/16 Council Tax.
26. The deficit of £154,300 on the NNDR element of the Collection Fund, as explained in paragraphs 11 to 16 will be shared between Southampton (49%), Central Government (50%) and Hampshire Fire and Rescue Authority (1%).

Southampton's share £75,600 of this deficit will be taken into account when setting the 2015/16 Council Tax.

## RESOURCE IMPLICATIONS

### Capital/Revenue

27. The revenue implications are contained in the main report and there are no capital implications.

### Property/Other

28. None.

## LEGAL IMPLICATIONS

### Statutory power to undertake proposals in the report:

29. The Collection Fund Outturn Report is prepared in accordance with the Local Government Acts 1972 – 2003.

### Other Legal Implications:

30. None

## POLICY FRAMEWORK IMPLICATIONS

31. The report has been prepared as part of the statutory accounts.

KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	
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## SUPPORTING DOCUMENTATION

### Appendices

1.	Collection Fund 2013/14
2.	

### Documents In Members' Rooms

1.	
2.	

### Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact	Yes/No
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Assessment (EIA) to be carried out.	
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**Other Background Documents**

**Equality Impact Assessment and Other Background documents available for inspection at:**

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.		
2.		