

DECISION-MAKER:	COUNCIL		
SUBJECT:	COLLECTION FUND OUTTURN 2012/13		
DATE OF DECISION:	17 JULY 2013		
REPORT OF:	CABINET MEMBER FOR RESOURCES		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Alison Chard	Tel: 023 8083 4897
	E-mail:	Alison.Chard@southampton.gov.uk	
Director	Name:	Mark Heath	Tel: 023 8083 2371
	E-mail:	Mark.Heath@southampton.gov.uk	

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 2012/13, explaining any variations that affect the overall surplus or deficit on the account.

The impact of any surplus or deficit on future Council Tax calculations is outlined in paragraph 17.

The Collection Fund was in deficit by £116,300 in 2012/13. This is a difference of £319,400 when compared to the revised estimate which anticipated a deficit of £435,700 (see Appendix 1). The reduction in the deficit compared to the estimate is due to a decrease in the bad debt provision (£135,100) and increased income from Council Tax Payers (£184,300). The variances in respect of National Non-Domestic Rate (NNDR) income and expenditure of £2.2M are neutral in 2012/13. However, variances in future years will directly impact on the Collection Fund following the localisation of Business Rates, as outlined in paragraphs 22 to 25. A complete variance analysis is included in paragraphs 11 to 17.

RECOMMENDATIONS:

It is recommended that Council:

- (i) Notes the accounts for the Collection Fund in 2012/13 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. Income received from NNDR payers is paid in full to the Central Government NNDR Pool after a contribution has been made to the City Council's General Fund to meet the costs of collection. The net effect of NNDR on the Collection Fund is therefore neutral. However, from 2013/14, due to the localisation of Business Rates under the Business Rate Retention (BRR) Scheme, NNDR variances will have an impact on the Collection Fund Outturn. See paragraphs 22 to 25 for further details.
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. The cost of Council Tax Benefit is currently 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 discount scheme. See paragraph 19 for further details.
6. Local Council Tax discounts have been approved. In 2012/13 these offer households where all occupants are over 65 a 10% discount and households where an occupant is a Special Constable serving in Southampton a 100% discount. The cost of these discounts is met by the General Fund. These discounts will not continue in 2013/14 and the decision to end these local discounts was approved by Council on 16 January 2013.
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 2012/13.

OUTTURN POSITION 2012/13

8. The overall position on the Council Tax Collection Fund at 31 March 2013 is illustrated in Appendix 1. This shows that a deficit of £116,300 has been made in the year. After adjusting for the surplus brought forward from 2011/12 of £1.6M, a surplus of approximately £1.5M is to be carried forward.
9. When setting the Council Tax for 2013/14 in February 2013, it was estimated that there would be a surplus of £1,2M to be carried forward. This estimated surplus was taken into account in setting the 2013/14 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 2012/13.

10. This leaves a surplus of £319,400 that will be carried forward to 2013/14 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 2014/15 is set.

EXPLANATION OF VARIANCES

11. Income from NNDR payers shows a reduction of £2.2M (2.21%) compared to the revised estimate of £99.6M (see Appendix 1). This was largely due to the deletion of entries on the valuation list in relation to the docks / port premises of approximately £2.6M.

The Valuation Office Agency (VOA) launched a ports review in May 2006 which took two years to complete. As a result of the review many port businesses, whose premises were now for the first time separately identified as rateable, were faced with substantial rates bills (sent in 2008) many of which were backdated to April 2005. The *Localism Act*, given Royal Assent on 15 November, gave the Secretary of State the power to introduce regulations prescribing the conditions for cancellation. Regulations were laid on 5 March 2012 that would implement the cancellation of certain of the backdated business rate liabilities. The regulations came into force on 31 March 2012. In June 2012 adjustments were made locally to the business rates accounts of those customers who qualified for the relief which reversed the backdated debts. Refunds totalling £2.6M brought to an end a very long saga.

12. In addition, in May 2013, Southampton's VOA Relationship Manager gave retrospective notice of a significant deletion from the City's rating list. The Freightliner Terminal was deleted from the City's rating list and moved to the Central Railways rating list with effect from 16 March 2012. This reduced the rating list by £1.2M

The impact of this deletion was that the Council had to refund the 2012/13 Business Rates of £0.6M. The refund due to the Freightliner Terminal has been reflected in both the 2012/13 Collection Fund Account and the end of year submission (NNDR3 Return) to Central Government, therefore the full cost of the refund will be met by Central Government under the Business Rate arrangements in place for the Financial Year ended 31 March 2013.

Under the new arrangements associated with BRR, the impact of removing the Freightliner Terminal with a rateable value of £1.2M from the City's rating list is a reduction in Business Rates income collectable of £586,000, (i.e. rateable value multiplied by the small business non domestic rating multiplier), and this will be borne by Central Government (50%), the Council (49%) and the HFRA (1%).

13. As previously stated, the overall effect currently on the Collection Fund of any changes in NNDR income and expenditure is neutral. This is illustrated by the corresponding decrease of £2.2M in Payments to the NNDR Pool in the expenditure section of the Collection Fund Account.
14. Income due from Council Tax payers has increased slightly by £184,300 (0.19%) compared to the revised estimate of £98.8M which is not material.

15. The remaining item of expenditure 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 2013 suggests that the following provisions are required:

Year	£000's
Prior Years	318
2006/07	263
2007/08	506
2008/09	717
2009/10	809
2010/11	1,007
2011/12	1,439
2012/13	1,536
Total	6,595

16. The bad debt provision available at the end of the year was £5.1M after allowing for amounts that had been written off in respect of previous years' arrears. To achieve the suggested level of £6.6M a contribution of £1.5M needs to be made to the Provision for Bad Debts in the year, a decrease of £135,100 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.
17. The bad debt provision of £6.6M compares to a total arrears figure of £8.3M which represents 79% 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 £735.3M have been raised.

FUTURE YEAR'S COUNCIL TAX

18. The surplus of £319,400 on the Collection Fund, as explained in paragraphs 8 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 2013/14. Southampton's share of this surplus which amounts to £273,400 will be taken into account when setting the 2014/15 Council Tax.

FUTURE CHANGES IN LOCAL GOVERNMENT FINANCE THAT IMPACT ON THE COLLECTION FUND

Technical Reforms of Council Tax

19. The Department for Communities and Local Government (DCLG) issued a consultation paper in October 2011 outlining reforms to Council Tax. These changes were included within the Local Government Finance Act 2012 and gave the Council local discretion from April 2013 to make significant changes to the discounts and exemptions that are currently offered on Council Tax, as follows:

- The application of exemptions to Council Tax to a number of classes of empty property, for example, where improvement works make the building uninhabitable;
- The introduction of an empty homes premium; and
- The abolition of the second homes discount.

The Council approved its Local Scheme in January 2013 to apply from 1 April 2013 and took advantage of those changes which will increase the level of Council Tax that is raised and mitigate some of the potential effects of the Localisation changes set out in paragraph 20 below.

Localisation of Council Tax Support

20. The Comprehensive Spending Review (CSR) 2010 included proposals to localise support for Council Tax from the beginning of the financial year 2013/14. The main change for the Council is that a grant will be paid to the General Fund to replace the funding for Council Tax Benefit paid into the Collection Fund. The major change for recipients is that the grant will cover only around 90% of the current benefits and Local Authorities were expected to introduce revised local benefit schemes that in total reduce benefits by 10% overall, or alternatively fund the reductions through other means. This will not be a uniform reduction as certain recipients, (such as pensioners) are legally excluded from the reduction.
21. A scheme was adopted by Council by the statutory deadline of 31 January 2013, to be implemented from 1 April 2013. The move away from a nationally prescribed scheme for calculating council tax benefit, and the introduction of a local scheme based on a reduction of 10% in the overall grant available from the government brings with it increased risk. One of these risks is that there will be an increase in council tax arrears due to non payment as, some current benefit recipients will be required to pay a higher contribution towards their Council Tax bill or in many cases pay Council Tax for the first time under the new local scheme.

Retention of Business Rates

22. The 1 of April 2013 is when the arrangements for the new BRR Scheme come into effect. From this date the Council assume some liability for refunding ratepayers who successfully appeal against the rateable value of their properties on the rating list. This will include amounts that were paid over to Central Government in respect of 2012/13 and prior years.
23. Previously, such amounts would have been deducted from the total paid to Central Government. However, under the new BRR arrangements Central Government is only liable for 50% of future successful appeals refunds, the Council being liable for 49% and the HFRA for the remaining 1%.
24. In January 2013, the Council were required to submit an estimate (NNDR1 form), to Central Government, of how much they expected to collect in Business Rates in 2013/14. The NNDR1 included an adjustment for future successful appeals of approximately £5.8M, of which the Council is liable for £2.9M. In accordance with CIPFA guidance no provision has been made in the Financial Statements as the liability does not crystallise until 1 April 2013. (The loss of The Freightliner Terminal Rateable Value of £1.2M referred to in paragraph 12 has not been reflected in our estimate to Central Government).
25. It is recognised that the introduction of BRR whilst offering an incentive to Local Authorities to grow their economies and resulting business rate income, also transfers risks. A reduction in the level of business rates collected below the level assumed and built into the General Fund revenue budget, will directly impact on the Council's bottom line through reduced income. A fall in business rates income could be due to the impact of businesses closing with insufficient new business opening to offset the reduction in rateable value, or it could be due to a higher than anticipated reduction in income due to lost appeals.

RESOURCE IMPLICATIONS

Capital/Revenue

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

Property/Other

27. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

29. None

POLICY FRAMEWORK IMPLICATIONS

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

KEY DECISION? Yes/No

WARDS/COMMUNITIES AFFECTED:	
-----------------------------	--

SUPPORTING DOCUMENTATION

Appendices

1.	Collection Fund 2012/13
----	-------------------------

Documents In Members' Rooms

1.	None
----	------

Equality Impact Assessment

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

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.	None	
----	------	--