



CABINET

12 JANUARY 2021

Notification of the Estimated Collection Fund Balances 2020-21 – Council Tax and Business Rates

Report of Chris Hand, Executive Director of Finance and Section 151 Officer

Cabinet Member: Nicholas Oliver, Portfolio Holder for Corporate Services

Purpose of report

To advise members of the estimated year end balances on the Collection Fund in relation to Council Tax and Business Rates for the year ending 31 March 2021.

Recommendations

Members are requested to:

- 1. Approve the declaration of a deficit on the Collection Fund for the year ending 31 March 2021 in relation to Council Tax of £2.552 million to be distributed to the Council and Northumbria Police and Crime Commissioner in accordance with Council Tax regulations; the Council's share being £2.376 million.**
- 2.**
 - a. Note the overall estimated deficit on the Collection Fund for the year ending 31 March 2021 in relation to Business Rates of £42.505 million; the Council's share being £21.427 million (which largely relates to the extension of rate reliefs announced by the government in response to the Covid-19 pandemic and for which the Council was reimbursed through S31 grants); and,**
 - b. Note that, after taking account of the extension of rate reliefs funded through S31 grants, the impact on the Council's General Fund will be a £1.549 million deficit for the three-year period (£0.865 million deficit in 2021-22).**
- 3. Note the distribution of the estimated Collection Fund deficit for Council Tax to the Northumbria Police and Crime Commissioner of £0.176 million and the distribution of the estimated Collection Fund deficit for Business Rates of £21.078 million to the Secretary of State.**

4. **Note the inclusion of the Council's share of the estimated Collection Fund balances distributable in 2021-22 of £1.268 million deficit and £20.743 million deficit, for Council Tax and Business Rates respectively, within the Council's budget 2021-22.**
5. **Note the inclusion of the Council's share of the estimated Collection Fund balances distributable 2021-2024 of £2.376 million deficit and £21.427 million deficit, for Council Tax and Business Rates respectively, within the Council's Medium-Term Financial Plan 2021-2024.**
6. **Note the Spending Review 2020 announcement that the government will "compensate local authorities for 75 per cent of irrecoverable loss of council tax and business rates revenues in 2020-21 that would otherwise need to be funded through local authority budgets in 2021-22 and later years."**

Link to Corporate Plan

The Council's budget and Medium-Term Financial Plan are aligned to the priorities outlined in the Corporate Plan 2018-21 "A Council that Works for Everyone".

Key issues

1. Northumberland County Council is required by statute to maintain a Collection Fund separate from the General Fund of the Council.
2. The Local Government Finance Act 1992 (as amended) requires the Council as the Billing Authority to calculate a Council Tax Collection Fund estimate by 15 January each year.
3. The Non-Domestic Rating (Rates Retention) Regulations 2013 require the Council as the Billing Authority to calculate a Business Rates Collection Fund estimate on or before 31 January each year.
4. The purpose of this report is to advise Cabinet of the estimated Collection Fund balances for 2020-21.
5. The report also determines the respective shares of the estimated balances notifiable to the major precepting authorities.
6. The Covid-19 pandemic is expected to have a significant impact on Collection Fund balances. In response to this, the government announced that local councils could spread the cost of estimated in-year deficits over a three-year period.
7. The government also announced an extension to a number of Business Rates discounts in response to Covid-19 which has had a significant impact on Collection Fund balances. This element of the deficit is not eligible for spreading over three years as the Council will be fully reimbursed for the lost income through S31 grant.
8. As part of Spending Review 2020, the government announced that it will "compensate local authorities for 75 per cent of irrecoverable loss of council

tax and business rates revenues in 2020-21". Compensation will be determined from outturn figures and will be paid through S31 grant. There is therefore no impact on the figures distributed from the Collection Fund, as the compensation will be recognised in the General Fund.

Background

1. As a Council Tax and Business Rates Billing Authority the Council is required by legislation to estimate the surplus or deficit for each financial year on the Collection Fund.
2. Both Council Tax and Business Rates precepts are fixed prior to the start of a financial year. Any variations from this realised through the Collection Fund in year are distributed in the following two financial years (based on estimates in the following year and actuals in the subsequent year).
3. The Collection Fund is a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for:
 - a) Income into the Fund: The Fund is credited with the amount of receipts of Council Tax and Business Rates it collects.
 - b) Payments out of the Fund: In relation to Council Tax, payments are made to the Council; the one major precepting authority (Northumbria Police & Crime Commissioner); and, the local preceptors (parish and town councils). In relation to Business Rates, payments are made to the Council and the Secretary of State.
4. The Local Government Finance Act 1992 (as amended) requires the Council as the Billing Authority to calculate a Collection Fund estimate by 15 January each year for Council Tax.
5. The Non-Domestic Rating (Rates Retention) Regulations 2013 require the Council as the Billing Authority to calculate a Collection Fund estimate on or before 31 January each year for Business Rates.
6. Both estimates relate to the Collection Fund for the year ending 31 March 2021 and show the impact of this on the cumulative Collection Fund balance.
7. Ordinarily, the estimated balances at the end of the current year are distributed to the relevant bodies in the next financial year, with any residual balance remaining in the Collection Fund and forming part of the estimated year-end balance in the following year. For 2020-21, in response to the Covid-19 pandemic, the government announced in July that any in year deficit could be spread over a three-year period.
8. The government further announced that it will "compensate local authorities for 75 per cent of irrecoverable loss of council tax and business rates revenues in 2020-21 that would otherwise need to be funded through local authority budgets in 2021-22 and later years."

Estimated Deficit for Council Tax

1. The Council Tax Collection Fund balance for the year ending 31 March 2021 shows a forecast deficit of £2.552 million based on figures up to the end of September 2020. This is comprised of an in year estimated deficit of £1.786 million and a prior year adjustment of £0.766 million (£3.616 million forecast surplus compared to a £2.850 million actual surplus). The estimated deficit on the Council Tax Collection Fund is due largely to an increase in Council Tax Support claimants and an increase in the provision for bad debts as a result of the Covid-19 pandemic.
2. Ordinarily, the year-end estimated surplus/deficit is distributed to the major precepting authorities in the following year in proportion to the current year demands and precepts on the Collection Fund. Due to the Covid-19 pandemic, and the expected impact on Collection Fund balances, the government announced that local authorities would be allowed to spread any estimated deficit on the 2020-21 Collection Fund over three years. Only the in-year element of the deficit (£1.786 million) will be eligible for spreading, with the prior year element (£0.766 million) being recognised in full in the following year as normal. The deficit will be shared among the major precepting authorities in the relevant proportions.
3. The government's announcement of compensation for 75% of irrecoverable losses will not affect the Collection Fund balances to be distributed and will be accounted for as part of the General Fund.

Estimated Surplus for Business Rates

1. The Business Rates Collection Fund balance for the year ending 31 March 2021 shows a forecast deficit of £42.505 million based on figures up to the end of September 2020. This is comprised of an in-year estimated deficit of £41.808 million and a prior year adjustment of £0.697 million (£0.229 million forecast surplus compared to a £0.468 million actual deficit). A large proportion of this deficit relates to the extension of the retail, hospitality and nursery discount announced by the government in response to the Covid-19 pandemic. As with Council Tax, the in-year deficit is eligible for spreading over a three-year period. However, the element of the in-year deficit attributable to the extended reliefs is not eligible as the Council will be reimbursed for this lost income through a S31 grant. The revised in-year deficit eligible for spreading, after adjusting for extended reliefs, is £2.052 million; this amount will be distributed over the next three years. The deficit is mainly due to an estimated reduction in income and increase in bad debt provision as a result of the Covid-19 pandemic.
2. The estimation of the Business Rates base each January sets the amount of Business Rates income to be distributed from the Collection Fund to preceptors in the following year. Any variations during the year will be borne by the Collection Fund and distributed to preceptors in future years through the declaration of a surplus or deficit on the fund.

3. The NNDR1 return to central government is the mechanism by which the estimated business rates balances are set for the following year. Unless there are any major changes to any of the assumptions detailed within this report then the figures included within this report will be reported to central government on the Council's NNDR1 return.
4. The government's announcement of compensation for 75% of irrecoverable losses will not affect the Collection Fund balances to be distributed and will be accounted for as part of the General Fund.

Distribution of the Estimated Collection Fund Balances

1. The following table shows the distribution of the estimated balances between the relevant precepting bodies.

Precepting Body	Council Tax	Business Rates	Total
	£m	£m	£m
2021-22			
Northumberland County Council	1.268	20.743	22.011
Northumbria Police & Crime Commissioner	0.094	0.000	0.094
Secretary of State	0.000	20.394	20.394
2022-23			
Northumberland County Council	0.554	0.342	0.896
Northumbria Police & Crime Commissioner	0.041	0.000	0.041
Secretary of State	0.000	0.342	0.342
2023-24			
Northumberland County Council	0.554	0.342	0.896
Northumbria Police & Crime Commissioner	0.041	0.000	0.041
Secretary of State	0.000	0.342	0.342
2021-2024 Total			
Northumberland County Council	2.376	21.427	23.803
Northumbria Police & Crime Commissioner	0.176	0.000	0.176
Secretary of State	0.000	21.078	21.078
Total Deficit	2.552	42.505	45.057

2. The Council's share of the estimated deficit balances will be incorporated into the budget for 2021-22 and Medium-Term Financial Plan 2021-2024.
3. The Council's share of the Business Rates deficit distributed in 2021-22 which relates to extended retail, hospitality and nursery reliefs will be offset by grant income of £19.878 million, meaning that the net effect on the General Fund, before compensation for 75% of irrecoverable losses, is a deficit of £0.865 million in 2021-22 and £1.549 million for the three year period.
4. The Northumbria Police and Crime Commissioner and the Secretary of State will be notified of their respective shares of the estimated balances in January 2021.
5. A full breakdown of the estimated Council Tax deficit is shown at Appendix 1 and the estimated Business Rates deficit is shown at Appendix 2.

Implications

Policy	This is the fourth year of this Administration's Medium-Term Financial Plan; and, it fully supports the priorities outlined in the Corporate Plan 2018-21 - A Council that Works for Everyone.
Finance and value for money	The Collection Fund is a statutory stand-alone fund. The estimated balances on the fund ultimately feed into the General Fund and are incorporated into the Council's Budget and Medium-Term Financial Plan.
Legal	The Council is required to determine and declare the forecast surplus or deficit position on its collection fund at the year-end by 15 January each year and notify its major precepting body (Northumbria Police & Crime Commissioner) of their share of the sum so that they can factor this into their budget setting processes.
Procurement	There are no specific procurement implications within this report.
Human Resources	There are no specific human resources implications within this report.
Property	There are no specific property implications within this report.
Equalities	There are no specific equalities implications within this report.
Risk Assessment	There is a risk that the actual position on the Collection Fund may not be in line with the estimated position contained within this report. In order to mitigate these risks monthly budget monitoring is undertaken. Any variation between the actual and estimated balance is contained within the Collection Fund in year and has no immediate impact on the General Fund.
Crime & Disorder	There are no specific crime & disorder implications within this report.
Customer Consideration	There are no specific customer consideration implications within this report.
Carbon reduction	There are no specific carbon reduction implications within this report.
Health & Wellbeing	The Council's budget is founded on the principle of promoting inclusivity.
Wards	All wards.

Background papers:

None.

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

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Appendix 1

2019-20		2020-21
Actual	COLLECTION FUND ACCOUNT - COUNCIL TAX	Estimate
£		£
	Income	
(204,055,255)	Income from Council Tax	(212,206,211)
(309,785)	Ministry of Defence Payments	(294,400)
(204,365,040)	Total Income	(212,500,611)
	Expenditure	
	<u>Precepts</u>	
177,740,416	Northumberland County Council (NCC)	188,195,074
8,947,724	Parish Councils	9,340,217
14,080,029	Northumbria Police & Crime Commissioner (NPCC)	14,641,042
	<u>Bad & Doubtful Debts</u>	
751,106	Increase in Bad Debt Provision	2,110,000
201,519,275	Total Expenditure	214,286,333
(2,845,765)	(Surplus)/deficit for year	1,785,722
	Collection Fund accumulated (surplus)/deficit	
(2,415,245)	Balance Brought Forward	(2,850,078)
2,258,410	Distribution of NCC share of prior year estimated surplus	3,350,798
152,522	Distribution of NPCC share of prior year estimated surplus	265,440
(2,845,765)	(Surplus)/Deficit for year	1,785,722
(2,850,078)	Accumulated (surplus)/deficit carried forward	2,551,882
	Distribution of Collection Fund accumulated (surplus)/deficit	
	NCC prior year deficit	713,292
	NCC in year deficit (to be spread over three years)	1,662,500
(2,640,876)	Northumberland County Council (NCC) Total	2,375,792
	NPCC prior year deficit	52,868
	NPCC in year deficit (to be spread over three years)	123,222
(209,202)	Northumbria Police & Crime Commissioner (NPCC) Total	176,090
(2,850,078)	Total	2,551,882

2019-20		2020-21
Actual	COLLECTION FUND ACCOUNT - BUSINESS RATES	Estimate
£		£
	Income	
(84,917,371)	Income from Business Rates	(48,933,842)
(1,722,730)	Transitional Protection	(1,060,202)
(86,640,101)	Total Income	(49,994,044)
	Expenditure	
	<u>Precepts and Payments</u>	
57,819,735	Northumberland County Council (NCC)	40,509,258
19,273,245	Secretary of State (SoS)	40,425,543
476,776	Cost of Collection Allowance	478,902
	<u>Bad & Doubtful Debts</u>	
1,090,251	Increase in Bad Debt Provision	2,501,478
	<u>Appeals & Losses</u>	
(969,420)	Losses on appeal (funded from provision)	-
4,263,540	Increase in appeals provision	3,816,440
	<u>Disregarded Amounts</u>	
3,376,020	Renewable Energy	3,804,857
189,106	Enterprise Zone Growth	265,520
85,519,253	Total Expenditure	91,801,998
(1,120,848)	(Surplus)/deficit for year	41,807,954
	Collection Fund accumulated deficit	
4,281,304	Balance Brought Forward	467,729
(1,346,364)	Distribution of NCC share of prior year estimated (deficit)/surplus	569,581
(1,346,363)	Distribution of SoS share of prior year estimated (deficit)/surplus	(339,664)
(1,120,848)	(Surplus)/Deficit for year	41,807,954
467,729	Accumulated deficit carried forward	42,505,600
	Calculation of in year deficit eligible for spreading	
	Deficit for year	41,807,954
	Deficit attributable to extended reliefs (not eligible for spreading)	(39,756,078)
	Deficit for year eligible for spreading	2,051,876
	Distribution of Collection Fund accumulated deficit	
	NCC prior year deficit (75% share - to be distributed in 2021-22)	523,234
	NCC in year deficit (50% share - to be distributed in 2021-22)	19,878,039

	NCC in year deficit (50% share - to be spread over three years)	1,025,938
(46,348)	Northumberland County Council (NCC) Total	21,427,211
	SoS prior year deficit (25% share)	174,412
	SoS in year deficit (50% share - to be distributed in 2021-22)	19,878,039
	SoS in year deficit (50% share - to be spread over three years)	1,025,938
514,077	Secretary of State (SoS) Total	21,078,389
467,729	Total	42,505,600