



<u>Committee and Date</u>	<u>Item</u>	<u>Paper</u>
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## **ESTIMATED COLLECTION FUND OUTTURN FOR 2020/21**

### **1. Summary**

- 1.1 Shropshire Council is required by statute to maintain a Collection Fund separate from the General Fund of the Council.
- 1.2 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<sup>th</sup> January each year.
- 1.3 The Non-Domestic Rating (Rates Retention) Regulations 2013 require the Council as the Billing Authority to calculate a Non-Domestic Rates (NDR) Collection Fund estimate on or before 31<sup>st</sup> January each year.
- 1.4 The purpose of this report is to advise Cabinet of the estimated Collection Fund surpluses/deficits for 2020/21, calculated as at the 15<sup>th</sup> January 2021 for Council Tax and as at 31<sup>st</sup> January 2021 for NDR, for the year ending 31<sup>st</sup> March 2021.
- 1.5 The report also determines the respective shares of the estimated surpluses/deficits notifiable to the major precepting authorities.

### **2. Recommendations**

Members are asked:

- 2.1 To note the overall Collection Fund estimated deficit of £43.579m for the year ending 31<sup>st</sup> March 2021, comprised of an estimated deficit of £0.659m for Council Tax and an estimated deficit of £42.920m for Non-Domestic Rates (NDR).
- 2.2 To note the estimated deficit incorporates the three year of phasing of the in year deficit.
- 2.3 To note the estimated deficit for NDR will be partially offset by the receipt of s31 grants for extra reliefs awarded as a result of the Covid-19 pandemic.
- 2.4 To note the distribution of the Collection Fund estimated deficit for Council Tax and deficit for NDR to the major / relevant precepting authorities and the Secretary of State.
- 2.5 To note Shropshire Council's share of the overall estimated deficit of £21.383m, comprised of an estimated deficit of £0.542m for Council Tax and an estimated deficit of £20.841m for NDR.
- 2.6 To note the inclusion of Shropshire Council's share of the overall estimated deficit in the 2021/22 budget.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 Estimation of the Council Tax Collection Fund surplus or deficit is a well understood process and any potential for error is mitigated to a large extent by adhering to the relevant legislation. However, small variations in collection rate or changes in the taxbase can have a significant financial impact.
- 3.2 Estimation of the Non-Domestic Rates (NDR) Collection Fund surplus or deficit can be affected by changes in rateable values and the level of appeals. There is comparatively little data available in relation to appeals on the 2017 list therefore a degree of variance on the Collection Fund due to changes in the appeals provision should be anticipated.
- 3.3 Despite the large deficit shown, particularly for NDR, and the requirement to spread the impact over three financial years, s31 grant has been received and will be applied to reduce the impact of this. It is not anticipated that any long-term implications for Council finances will result from this significant variance originating from the 2020/21 Financial Year.
- 3.4 Central Government announced new reliefs to be awarded during the year to assist businesses. This reduction in collectable rates impacts directly on the NDR Collection Fund. Shropshire Council will receive s31 grants from Central Government to cover the reduction in income received from businesses as a result of these reliefs. It is anticipated that there will be no long term implications from this changed approach.

### 4. Financial Implications

- 4.1 Council Tax and NDR precepts are fixed prior to the start of the financial year. Any variations to these amounts are realised through the Collection Fund. The estimated Collection Fund Outturn projects the variation for the financial year end and any surplus or deficit is included in the following year's budget. Variations in collection rate and changes in the taxbase for Council Tax and rateable values for NDR will have an impact on the Collection Fund and therefore affect the amount available to be distributed.
- 4.2 As a result of the Covid-19 pandemic Central Government introduced new regulations which phase any in year deficit on the Collection Fund over three years therefore the estimated Collection Fund deficit in 2020/21 will impact on the budgets for the next three years, 2021/22 to 2023/24.
- 4.3 Central Government also announced a number of new reliefs to be awarded during the year to assist businesses. This reduction in collectable rates impacts directly on the NDR Collection Fund. Shropshire Council will receive s31 grants from Central Government to cover the reduction in income received from businesses as a result of these reliefs.

### 5. Climate Change Appraisal

- 5.1 The estimated Collection Fund Outturn report and recommendations have no direct effect on climate change.
- 5.2 From financial year 2020/21 onwards, additional NDR receipts retained from renewable energy schemes (RES) will be ringfenced to support climate change initiatives by Shropshire Council. The projected RES of £1.036m for 2021/22 will be ringfenced to support climate change initiatives.

## 6. Background

- 6.1 As a Council Tax and Non-Domestic Rates (NDR) Billing Authority the Council is required by legislation to estimate the surplus or deficit for each financial year on the Collection Fund.
- 6.2 Prior to 2013/14 this estimate was only required for Council Tax. However, as part of the Local Government Finance Act 2012 the Government implemented a Business Rates Retention Scheme from April 2013, whereby the collection and distribution of NDR is collected and distributed via the Collection Fund (distribution of NDR had previously been managed nationally). Local Authorities as a result took on an additional level of risk and uncertainty of NDR funding.
- 6.3 In a similar way to Council Tax precepts from the Collection Fund, NDR precepts are now fixed prior to the start of a financial year and any variations from this realised through the Collection Fund in year are distributed in the following two financial years (based on estimated in the following year and actuals in the subsequent year).
- 6.4 The Collection Fund is a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for:
- **Income into the Fund:** The Fund is credited with the amount of receipts of Council Tax and NDR it collects.
  - **Payments out of the Fund:** In relation to Council Tax payments are made to the Council, the two major precepting authorities (West Mercia Police & Crime Commissioner and Shropshire & Wrekin Fire Authority) and the local preceptors (parish and town councils). In relation to NDR payments are made to the Council, the Secretary of State and the single relevant precepting authority (Shropshire & Wrekin Fire Authority).
- 6.5 The Local Government Finance Act 1992 (as amended) requires the Council as the Billing Authority to calculate a Collection Fund estimate by 15<sup>th</sup> January each year for Council Tax. The Non-Domestic Rating (Rates Retention) Regulations 2013 require the Council as the Billing Authority to calculate a Collection Fund estimate by 31<sup>st</sup> January each year for NDR. Both estimates relate to the Collection Fund Income and Expenditure Account for the year ending 31<sup>st</sup> March and the impact of this on the Collection Fund Balance.
- 6.6 The recently introduced Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020 require any in year deficit to be phased over three years, 2021/22 to 2023/24.

## 7. 2020/21 Estimated Surplus / Deficit for Council Tax

- 7.1 The forecast of the Council Tax Collection Fund Balance for the year ending 31<sup>st</sup> March 2021 shows a forecast deficit of £0.886m based on figures as at 15<sup>th</sup> January 2021. This is comprised of an in year estimated deficit of £0.341m and a deficit of £0.545m from the previous year's actual Council Tax Collection Fund. The estimated deficit on the Council Tax Collection Fund is due to the impact of Covid-19.
- 7.2 As a result of the impact of Covid-19 on the Collection Fund Central Government announced that authorities would be allowed to spread the in year estimated deficit on the 2020/21 Collection Fund over three years, 2021/22 to 2023/24. Therefore, the in year estimated deficit of £0.341m will be phased giving an estimated deficit of £0.114m to be accounted for each year. After accounting for the phasing of the deficit over three years the adjusted estimated Collection Fund deficit for Council Tax is £0.659m.

- 7.3 The year end estimated deficit is distributed to the major precepting authorities in proportion to the current year demands and precepts on the Collection Fund. The percentages are likely to change each year due to different inflationary adjustments being applied by the major precepting authorities.
- 7.4 The detailed determination of the estimated Council Tax Collection Fund deficit for 2020/21 is shown in Appendix A and the allocation of the estimated deficit to each of the major precepting authorities is summarised in Table 1 on page 4.

## **8. 2020/21 Estimated Surplus / Deficit for Non-Domestic Rates (NDR)**

- 8.1 The forecast of the Non-Domestic Rates Collection Fund Balance for the year ending 31<sup>st</sup> March 2021 shows a forecast deficit of £43.606m based on figures as at 31st January 2021. This is comprised of an in year estimated deficit of £43.978m and a surplus of £0.372m due to a difference in the previous year's estimated surplus to the actual surplus.
- 8.2 The forecast deficit on the Non-Domestic Rates Collection Fund is attributable to the additional reliefs awarded to businesses in response to the coronavirus pandemic. Central Government will provide s31 grant funding to billing and precepting authorities to compensate for this reduction in funding.
- 8.3 As a result of the impact of Covid-19 on the Collection Fund Central Government announced that authorities would be allowed to spread the in year estimated deficit on the 2020/21 Collection Fund over three years, 2021/22 to 2023/24. For Business Rates the amount which can be spread is adjusted by the amount that is due to be received as s31 grants to compensate for the additional reliefs awarded. This gives a revised in year estimated deficit of £1.030m to be spread over 3 years giving an estimated deficit of £0.343m to be accounted for each year. After accounting for the phasing of the deficit over three years the adjusted estimated Collection Fund deficit for Business Rates is £42.920m.
- 8.4 The year end estimated deficit is distributed to the Secretary of State and relevant precepting authorities in proportion to the current year demands and NDR payments on the Collection Fund. The percentages are fixed in accordance with The Non-Domestic Rating (Rates Retention) Regulations 2013.
- 8.5 An exception to this distribution method exists, however, in relation to Business Rates income from renewable energy projects. This income is retained in full by the Billing Authority and as such the income is disregarded from calculations in the rates retention scheme. In 2019/20 and 2020/21 income from Renewable Energy Schemes (RES) was £0.910m and £1.095m respectively. The 2020/21 Business Rates Collection Fund estimate includes a total of £0.373m to be retained in full by Shropshire Council as the billing authority. This is comprised of an in year estimated surplus of £0.135m and a surplus of £0.238m due to a difference in the previous year's estimated surplus to the actual surplus.
- 8.6 The introduction of the Business Rates Retention Scheme from April 2013 has increased uncertainty and volatility in Council funding. The estimation of the NDR base each January now sets the amount of NDR to be distributed from the Collection Fund to preceptors in the following year. Any variances to the base 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.
- 8.7 The detailed determination of the estimated Business Rates Collection Fund deficit for 2020/21 is shown in Appendix B and the allocation of the estimated deficit to the Secretary of State and the relevant precepting authorities is summarised in Table 1 below.

**Table 1: Distribution of the 2020/21 Estimated Collection Fund (Surplus) / Deficit**

	<b>Council Tax £m</b>	<b>NDR £m</b>	<b>Total £m</b>
Secretary of State	-	21.646	21.646
Shropshire Council	0.542	20.841	21.383
West Mercia Police & Crime Commissioner	0.080	-	0.080
Shropshire & Wrekin Fire Authority	0.036	0.433	0.469
<b>Total Estimated (Surplus) / Deficit</b>	<b>0.659</b>	<b>42.920</b>	<b>43.579</b>

- 8.8 Shropshire Council's share of the overall estimated Collection Fund deficit has been incorporated into the 2021/22 budget.
- 8.9 The Secretary of State and major / relevant precepting bodies were notified of these deficits by 31<sup>st</sup> January 2021.

<b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b> N/A
<b>Cabinet Member</b> Councillor David Minnery
<b>Local Member</b> N/A
<b>Appendices</b> <b>Appendix A:</b> Shropshire Council 2020/21 Estimated Council Tax Collection Fund Account <b>Appendix B:</b> Shropshire Council 2020/21 Estimated Non-Domestic Rates Collection Fund Account

<b>APPENDIX A</b>			
<b>SHROPSHIRE COUNCIL ESTIMATED COUNCIL TAX COLLECTION FUND ACCOUNT</b>			
<b>(Estimate As At 15th January 2021)</b>			
<b>2019-20</b>			<b>2020-21</b>
<b>Actual</b>			<b>Estimate</b>
<b>£'000</b>			<b>£'000</b>
	<b>Income</b>		
<b>(201,825)</b>	Council Tax Income		<b>(210,998)</b>
	Transfers from General Fund		
2	- Transitional Relief		1
<b>(43)</b>	- Discretionary Relief		<b>(1,216)</b>
<b>(201,866)</b>	<b>Total Income</b>		<b>(212,213)</b>
	<b>Expenditure</b>		
	<b>2020/21 Precepts</b>		
154,427	Shropshire Council		163,934
24,101	West Mercia Police & Crime Commissioner		25,573
11,152	Shropshire & Wrekin Fire Authority		11,611
8,211	Parish & Town Councils		8,940
	<b>Bad &amp; doubtful debts</b>		
<b>(127)</b>	Write Offs		<b>(715)</b>
1,228	Increase in Bad Debt Provision		3,211
<b>198,990</b>	<b>Total Expenditure</b>		<b>212,554</b>
<b>(2,875)</b>	<b>(Surplus)/Deficit for the year</b>		341
	<b>Impact on Collection Fund Accumulated Deficit</b>		
<b>(3,601)</b>	Accumulated (surplus)/deficit brought forward		<b>(2,810)</b>
3,666	Distribution of prior year estimated surplus		3,355
<b>(2,875)</b>	(Surplus)/Deficit for the year		341
<b>(2,810)</b>	<b>Estimated Accumulated (Surplus)/Deficit Carried Forward</b>		<b>886</b>
	<b>Adjusted Estimated Collection Fund (Surplus) / Deficit</b>		
	Prior year (surplus)/deficit		545
	In year (surplus)/deficit phased over 3 years		114
			<b>659</b>
	<b>Share of Adjusted Estimated Collection Fund Deficit</b>		
<b>(2,758)</b>	Shropshire Council		542
<b>(409)</b>	West Mercia Police & Crime Commissioner		80
<b>(189)</b>	Shropshire & Wrekin Fire Authority		36
<b>(3,355)</b>			<b>659</b>

APPENDIX B				
SHROPSHIRE COUNCIL ESTIMATED NON-DOMESTIC RATES COLLECTION FUND ACCOUNT				
(Estimate As At 31st January 2021)				
2019-20		2020-21	2020-21	2020-21
Actual		Estimate	Estimate	Estimate
£'000		£'000	Excluding Renewable Energy Schemes £'000	Renewable Energy Schemes Only £'000
	<b>Income</b>			
(83,137)	Business Rates Income	(41,937)	(40,841)	(1,095)
(2,639)	Transitional Protection	(524)	(524)	-
<b>(85,776)</b>	<b>Total Income</b>	<b>(42,461)</b>	<b>(41,366)</b>	<b>(1,095)</b>
	<b>Expenditure</b>			
	<b>2020/21 Payments to Major Preceptors</b>			
40,872	Secretary of State	41,560	41,560	-
40,055	Shropshire Council	41,689	40,729	960
817	Shropshire & Wrekin Fire Authority	831	831	-
457	Cost of Collection	449	449	-
	<b>Bad &amp; doubtful debts</b>			
(206)	Write Offs	(99)	(99)	-
582	Increase in Bad Debt Provision	553	553	-
	<b>Appeal Losses &amp; Provisions</b>			
(2,002)	Losses	(2,235)	(2,235)	-
3,254	Increase in Appeal Provision	3,691	3,691	-
<b>83,831</b>	<b>Total Expenditure</b>	<b>86,439</b>	<b>85,478</b>	<b>960</b>
<b>(1,945)</b>	<b>(Surplus)/Deficit for the year</b>	<b>43,978</b>	<b>44,113</b>	<b>(135)</b>
	<b>Impact on Collection Fund Accumulated (Surplus) / Deficit</b>			
1,014	Accumulated (surplus)/deficit brought forward	(1,490)	(580)	(910)
(560)	Distribution of prior year estimated surplus/(deficit)	1,119	446	673
(1,945)	(Surplus)/Deficit for the year	43,978	44,113	(135)
<b>(1,490)</b>	<b>Estimated Accumulated (Surplus) / Deficit Carried Forward</b>	<b>43,606</b>	<b>43,978</b>	<b>(373)</b>
	<b>Adjusted Estimated Collection Fund (Surplus) / Deficit</b>			
	Prior year (surplus)/deficit	(372)	(134)	(238)
	In year (surplus)/deficit not applicable for phasing over 3 years	42,948	43,083	(135)
	In year (surplus)/deficit phased over 3 years	343	343	0
		<b>42,920</b>	<b>43,292</b>	<b>(373)</b>
	<b>Distribution of Adjusted Estimated Collection Fund (Surplus) / Deficit</b>			
(223)	Secretary of State	21,646	21,646	-
(892)	Shropshire Council	20,841	21,213	(373)
(4)	Shropshire & Wrekin Fire Authority	433	433	-
<b>(1,119)</b>		<b>42,920</b>	<b>43,292</b>	<b>(373)</b>