

DECISION-MAKER:	COUNCIL		
SUBJECT:	COLLECTION FUND OUTTURN 2014/15		
DATE OF DECISION:	15 JULY 2015		
REPORT OF:	CHIEF FINANCIAL OFFICER		
<u>CONTACT DETAILS</u>			
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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 2014/15, explaining any variations that affect the overall surplus or deficit on the account.

From 1 April 2013 the arrangements in respect of Non Domestic Rates (NDR) 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 requires the Collection Fund (Surplus)/ Deficit to be split between that arising from Council Tax and that arising from NDR.

The Collection Fund was in surplus by £24.2M in 2014/15 which was made up as follows:

	£M	£M
Council Tax – (Surplus)		(0.6)
NDR (Surplus)		(6.0)
Contributions towards Previous years NDR deficit		
Southampton City Council	(8.6)	
Central Government – DCLG	(8.8)	
Hampshire Fire & Rescue Service	(0.2)	
		(17.6)
Net In Year Surplus on the Collection Fund		(24.2)

The impact of any surplus or deficit on future Council Tax calculations is outlined in paragraphs 24 and 25.

The Collection Fund was in surplus by £24.2M (including contributions to previous year's deficit paragraph 12) in 2014/15. This is an increase of £0.5M when compared to the revised estimate which anticipated a surplus of £23.7M (see Appendix 1). The

slight increase in the surplus compared to the estimate is due to:

- a decrease in the Council Tax bad debt provision (£0.1M);
- decreased income from Council Tax Payers £0.5M;
- decreased income from NDR Ratepayers £0.3M;
- increased transitional payments to DCLG £0.3M; and
- a decrease in both the NDR bad debt provision and the appeals provision of (£0.8M) and (£0.7M) respectively.

A complete variance analysis is included in paragraphs 15 to 23.

RECOMMENDATIONS:

It is recommended that council:

- (i) Notes the accounts for the Collection Fund in 2014/15 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, NDR and Council Tax. Until 2013/14 income received from NDR payers was paid in full to the Central Government NDR Pool after a contribution had been made to the City Council's General Fund to meet the costs of collection. The net effect of NDR 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, NDR 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 2014/15.
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 2014/15.

OUTTURN POSITION 2014/15

8. The overall position on the Collection Fund at 31 March 2015 is illustrated in Appendix 1. This shows that a surplus of £24.2M has been made in the year. After adjusting for the deficit brought forward from 2013/14 of £15.2M, a surplus of approximately £9.1M is to be carried forward i.e. a Council Tax Surplus of £3.2M and an NDR Surplus of £5.8M.

Council Tax

9. When setting the Council Tax for 2015/16 in February 2015, it was estimated that there would be a Council Tax surplus of £3.7M to be carried forward. This estimated surplus was taken into account in setting the 2015/16 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 2014/15, the actual surplus was £3.2M.
10. This leaves a deficit of £0.5M that will be carried forward to 2015/16 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 2016/17 is set

NDR

11. The changes explained previously affect the retention of the 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 underestimate of the starting appeals provision, along with a substantial reduction to Southampton's rateable value, 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 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.
13. When setting the Council Tax for 2015/16 in February 2015, it was estimated that there would be an NDR surplus of £4.8M to be carried forward. This estimated surplus was taken into account in setting the 2015/16 Council Tax and was shared by the City Council, Central Government, and the HFRA, in the following proportions 49%, 50%, and 1% respectively, the Council's share was £2.4M.
14. NDR income collected was £0.3M less than expected but this was offset by reduced expenditure compare to that estimated of £1.3M. The surplus of £1M will be carried forward and Southampton City Council's element will then be taken into account when setting the 2016/17 Council Tax.

EXPLANATION OF VARIANCES

Council Tax

15. Income due from Council Tax payers has decreased slightly by £551,000 (0.61%) compared to the revised estimate of £90.9M which is not material.
16. 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 2015 suggests that the following provisions are required:

Year	£M
Prior Years	0.5
2008/09	0.5
2009/10	0.6
2010/11	0.7
2011/12	1.0
2012/13	1.2
2013/14	1.9
2014/15	1.8
Total	8.2

17. The bad debt provision available at the end of the year was £6.3M after allowing for amounts that had been written off in respect of previous years' arrears. To achieve the suggested level of £8.2M a contribution of £1.9M needs to be made to the Provision for Bad Debts in the year, a decrease of £0.1M 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.
18. The bad debt provision of £8.2M compares to a total arrears figure of £11.2M which represents 73% 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 £754.8M have been raised.

NDR

19. Income due from NDR Ratepayers has decreased by £0.3M (0.3%) compared to the revised estimate of £104.2M which is not material.
20. There was also a variance on the NDR Bad Debt Provision. All authorities are required to make provision for NDR rate payer's 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 2015 suggests that the following provisions are required:

Year	£M
Prior Years	0.2
2011/12	0.2
2012/13	0.3
2013/14	0.3
2014/15	0.5
Total	1.5

21. The bad debt provision available at the end of the year was £0.8M after allowing for amounts that had been written off in respect of previous years' arrears. To achieve the suggested level of £1.5M a contribution of £0.7M needs to be made to the Provision for Bad Debts in the year, a decrease of £0.8M 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.

22. In addition to the Bad Debt Provision all authorities are required to make a provision for NDR Appeals for the current and prior years. Appeals lodged before 31 March 2015 can be backdated to April 2010. The level of provision is based on historic levels of refunds made as a proportion of the net rate yield per the NNDR1 i.e. Business Rates estimate for the year. An analysis of the appeals provision as at 31 March 2015 suggests that the following provisions are required:

Year	£M
Prior Years	0.6
2010/11	2.4
2011/12	2.2
2012/13	2.4
2013/14	3.5
2014/15	6.5
Total	17.6

23. The appeals provision available at the year end was £11.1M after allowing for prior year refunds of £4.1M. To achieve the historic level of refunds of £17.6M a contribution of £6.5M was required, a net increase of £2.4M. This gives favourable variances of £0.3M and £0.4M when compared to the revised estimates for 2014/15 Appeals Provision and Prior Years Provision respectively.

FUTURE YEAR'S COUNCIL TAX

24. The deficit of £0.5M 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 2015/16. Southampton's share of this deficit which amounts to £0.4M will be taken into account when setting the 2016/17 Council Tax.
25. The surplus of £1.0M on the NNDR element of the Collection Fund, as explained in paragraphs 11 to 14 will be shared between Southampton (49%), Central Government (50%) and Hampshire Fire and Rescue Authority (1%). Southampton's share £0.5M of this surplus will be taken into account when setting the 2016/17 Council Tax.

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:	
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SUPPORTING DOCUMENTATION

Appendices

1.	Collection Fund 2014/15
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Documents In Members' Rooms

1.	None
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Equality Impact Assessment

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