

# Policy and Resources Committee

23 November 2016

Is the final decision on the recommendations in this report to be made at this meeting?

**No**

## Council Tax and Business Rates – Projected Collection Fund Surplus / Deficit for 2016/17

<b>Final Decision-Maker</b>	Council
<b>Lead Head of Service</b>	Mark Green, Director of Finance & Business Improvement
<b>Lead Officer and Report Author</b>	Ellie Dunnet, Chief Accountant
<b>Classification</b>	Public
<b>Wards affected</b>	All

### This report makes the following recommendations to this committee:

1. That the committee agrees the 2016/17 Council Tax projection detailed in Appendix I of this report and as a result agree the distribution of the surplus set out in paragraph 4.7.
2. That the committee agrees the 2016/17 Business Rates projection detailed in Appendix II of this report and as a result note the distribution of the surplus set out in paragraph 4.11.

### This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all
- Securing a successful economy for Maidstone Borough

The surplus / deficit on collection of Council Tax and Business Rates is taken into account in setting the budget requirement for the following year.

### Timetable

<b>Meeting</b>	<b>Date</b>
Policy & Resources	23 November 2016
Council	1 March 2017

# **Council Tax and Business Rates – Projected Collection Fund Surplus / Deficit for 2016/17**

## **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 This report details the anticipated balances (surplus or deficit) on the Collection Fund as at 31 March 2017 from Council Tax and Business Rates collection. The distribution of balances to precepting authorities is an important part of their budget calculation and a decision at this time enables timely advice to those authorities. It also enables timely consideration in relation to the council's own budget strategy for the coming financial year.

## **2. INTRODUCTION AND BACKGROUND**

- 2.1 As a billing authority, this council has a statutory obligation to maintain a Collection Fund for transactions relating to the collection of Council Tax and Business Rates from taxpayers and distribution to preceptors.
- 2.2 The regulations provide that, in estimating a surplus or deficit on the Collection Fund at the end of the year, account is taken of any difference between the amount estimated for the previous year and the amount shown as the surplus/deficit for that year in the accounts. Surpluses and deficits will be calculated separately for council tax and business rates.
- 2.3 These balances (surplus or deficit) will be distributed between the billing authority, ie Maidstone Borough Council, and major preceptors during 2017/18. The amounts are apportioned on the basis of the billing authority's demand, and each major precepting authority's precept, based on their respective band D council tax bases to which the estimate relates i.e. the amounts to be distributed during 2017/18 will be apportioned using the 2016/17 demand and precept amounts.

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## **3. AVAILABLE OPTIONS**

- 3.1 It is recommended that the committee agrees the projections in paragraph 4.7 and Appendix I for Council Tax and 4.11 and Appendix II for Business Rates.
- 3.2 It is a statutory requirement that any adjustment be calculated annually and the committee cannot choose to ignore this decision.
- 3.3 The committee could choose to vary the figures used in the estimate provided within the appendices. However, these are based on data from the revenues system, projections developed from past experience and known factors. They are considered to represent a reasonable basis for estimating the position on the collection fund at 31 March 2017.

- 3.4 Should the committee choose to vary the data and distribute a different surplus or deficit this could affect the balance on the collection fund and the council's cash flows.
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#### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 Committee members will be aware that this council is required to maintain a collection fund which accounts for all local tax payments for council tax and business rates. The income into the fund is used to pay precepts to Kent County Council, Kent Fire Authority, Kent Police (Council Tax only), Central Government (Business Rates only) and the equivalent requirement of this Council which includes the local Parish Precepts.
- 4.2 For proper maintenance of the Collection Fund, it is necessary to assess, on an annual basis, the projected balance as at 31 March of each year. Any balance, either positive or negative, must be taken into account in the following financial year. Under the Statutory arrangements for the Collection Fund, the balance remaining does not become a credit or charge on this Council but requires it to be distributed proportionately across the preceptors.

##### **Council Tax**

- 4.3 A projection for 31 March 2017 based on the current position is provided at Appendix I. This appendix details the precepts and demands on the fund totalling £94,980,423.
- 4.4 Appendix I also details the current position regarding council tax bills dispatched, incorporating exemptions and discounts. Total income is now anticipated to be £94,574,226; therefore a deficit of £406,197 is anticipated for 2016/17. The forecast deficit has arisen as a consequence of an over distribution in the current year of the surplus forecast at this point last year. This includes a provision for non-collection of council tax income based on an estimate on the level of uncollectible debt. Increases in the value of discounts awarded to single persons and council tax support have also been observed through comparing the current position to the previous year.
- 4.5 In previous years, the collection fund has produced a surplus, due mainly to the continuing increase in properties on the valuation list. The council tax surplus brought forward at the beginning of the year, ie as at 31 March 2016, was £1,764,204. The predicted outturn at this time last year was £1,016,915 and this value was taken into account in setting the Council Tax for 2016/17. The position at the beginning of 2016/17 was therefore even better than expected. This resulted from a lower than anticipated take-up of discounts, and a lower level of bad debt provision being required at year end compared to the forecast. There is therefore a favourable balance of £747,289 resulting from an under distribution in 2015/16.
- 4.6 As a result, the favourable outturn for 2015/16 offsets almost entirely the adverse outturn now expected for 2016/17. In total, Appendix A estimates that there will be a net surplus on the collection fund for 2016/17 of

£341,122.

- 4.7 In line with the Local Government Finance Act 1992 it is necessary to declare the distribution of any surplus or deficit on the collection fund and for this reason it is recommended that the surplus be distributed as set out in the table below. This apportions the surplus in line with the preceptors' share of the council tax as detailed below:

<b>Preceptor</b>	<b>£</b>
Maidstone Borough Council	55,972
Kent County Council	238,012
Kent Police Authority	31,993
Kent and Medway Towns Fire Authority	15,144
<b>Total projected Surplus/share as at 31 March 2016</b>	<b>341,122</b>

*Table 1 – Council Tax*

### **Business Rates**

- 4.8 The committee will be aware of the business rates retention scheme which came into effect on 1 April 2013. This introduced the distribution of business rates via the collection fund in a similar way to council tax. Under the previous system, income was pooled and distributed nationally by the government. Precepts for business rates are determined prior to the start of a financial year based on fixed percentages applied to estimated income. The income realised within the collection fund is then distributed in the following two financial years (based on estimates in the following year and actuals in the subsequent year).
- 4.9 The current position regarding business rates for 2016/17 is projected to 31 March 2017 in Appendix II. As at 31 March 2017 the collection fund for business rates is estimated to have an in-year surplus of £3,814,887 for business rates relating to the financial year 2016/17, to be distributed to preceptors in 2017/18. This is in contrast to the deficit at 31 March 2016, which is explained in more detail at paragraph 4.10 below.
- 4.10 The actual outturn at the beginning of the year, as at 31 March 2016, has however been a deficit of £6,994,971. The predicted outturn in January 2016 was a surplus of £2,536,732. There is therefore a deficit of £9,531,703 to be shared amongst preceptors. The variance was attributable to a significant number of appeals which resulted in an increase in the provision for appeals. This has already been reported to central government and preceptors. Sufficient resources were set aside when closing our accounts in 2015/16 to cover this council's share of the deficit. This increase in appeals arose as a consequence of legislative change, and the trend has not continued in the current year.
- 4.11 The total deficit on the collection fund for business rates of £5,716,816 will be recovered from preceptors as set out in the table below, by applying the central and local share percentages set by the government.

<b>Preceptor</b>	<b>£</b>
Central Government (50%)	-2,858,408
Maidstone Borough Council (40%)	-2,286,726
Kent County Council (9%)	-514,513
Kent & Medway Fire Authority (1%)	-57,168
<b>Total</b>	<b>-5,716,816</b>

4.12 Since the beginning of the new system the government has utilised a number of incentives to assist businesses such as small business rates exemptions and limiting business rates increases to 2%. These have a direct impact on the collection fund by reducing the value of business rates collected. The council is reimbursed for some of these reliefs through section 31 grants external to the collection fund.

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## **5. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

5.1 The collection fund surplus (Council Tax) and deficit (Business Rates) will inform the budget setting process in calculation of the budget requirement.

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## **6. CROSS-CUTTING ISSUES AND IMPLICATIONS**

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	The estimated collection fund surplus or deficit is taking into account in setting the budget requirement for the year and therefore informs the medium term financial strategy.	Section 151 Officer
<b>Risk Management</b>	The calculation of the balance on the Collection Fund at 31 March 2016 could be incorrect and a significant deficit could arise. This would be recouped from the various preceptors and the Council in 2016/17. During the interim period, the deficit would also affect the Council's cash flow. Monthly monitoring of collection rates and growth seen in the tax base over recent years help the Council to mitigate this risk.	Section 151 Officer
<b>Financial</b>	The results of this decision affect the overall budget strategy process and therefore	Section 151 Officer

	the pressure on the council tax requirement in creating a balanced budget.	
<b>Staffing</b>	No direct impact	N/A
<b>Legal</b>	Billing authorities are required by the Local Authorities (Funds) (England) Regulations 1992 to estimate any surplus/deficit on their collection fund for the year.	Interim Head of Mid Kent Legal Partnership
<b>Equality Impact Needs Assessment</b>	No direct impact	N/A
<b>Environmental/Sustainable Development</b>	No direct impact	N/A
<b>Community Safety</b>	No direct impact	N/A
<b>Human Rights Act</b>	No direct impact	N/A
<b>Procurement</b>	No direct impact	N/A
<b>Asset Management</b>	No direct impact	N/A

## **7. REPORT APPENDICES**

The following documents are to be published with this report and form part of the report:

- Appendix I: Council Tax projection to 31 March 2017
- Appendix II: Business Rates projection to 31 March 2017

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## **8. BACKGROUND PAPERS**

None