

SUBJECT: COLLECTION FUND DEFICIT – COUNCIL TAX

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: JACLYN GIBSON – CHIEF FINANCE OFFICER

1. Purpose of Report

- 1.1 To inform Members of the estimated balance for the Council Tax element of the Collection Fund and the surplus or deficit to be declared for 2020/21.

2. Executive Summary

- 2.1 Prior to setting the Council Tax for 2021/22 the City Council is required to estimate whether there is to be a surplus or deficit on Council Tax element of the Collection Fund for the current financial year (2020/21).
- 2.2 The Council will declare a deficit on Council Tax £1,105,616 for the financial year 2020/21, with the City Council's share being £165,680.

3. Background

- 3.1 As a Council Tax Billing Authority the City Council is required to estimate whether there is to be a surplus or deficit on the Collection Fund for the current financial year, prior to setting its Council Tax for the next year. The calculation is based on an estimate of tax collected in year compared to the estimate made the previous year, taking into account any previously declared surplus or deficit and the expected year-end arrears position.
- 3.2 The calculation of Council Tax is based on an estimate of tax collected in year compared to the estimate made the previous year, taking into account any previously declared surplus or deficit, and a forecast for the remainder of the current year.
- 3.3 A surplus or deficit may occur in the Collection Fund if actual performance during the year is higher or lower than originally estimated when Council was set. Areas of variance include:
- Council Tax base is larger or smaller than originally anticipated (reasons may be increased property development or changes in exemptions and discounts)
 - Claimant numbers for the Local Council Tax Support scheme are higher or lower than expected.
 - In year collection rates are higher or lower than expected,
 - Arrears collection rates are higher or lower than expected

- 3.4 The Council is required to declare any surplus or deficit during January of each financial year and once approved has an obligation to notify its major precepting authorities (Lincolnshire County Council and Lincolnshire Police) of their share of the estimated surplus or deficit.
- 3.5 As the result of the Covid-19 pandemic, the Council, in line with many other local authorities is predicting a significant deficit on its Collection Fund. Under normal circumstances a surplus or deficit reported in year is carried forward in the Collection Fund into the following financial year, when it then impacts on the General Fund budget. However, on 1st December 2020 the Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020 came into effect. These regulations, which are mandatory, amend the rules governing the apportionment of Collection Fund surpluses and deficits for Council Tax and Non-domestic Rates. The key element of the Regulations is that Collection Fund deficits arising in 2020/21 can be spread over the following three years, rather than the usual period of one year. This only refers to the in year deficit, net of Covid related grants. Any surpluses or deficits relating to previous financial years must be transferred to the General Fund in 2021/22 in the normal way.

4. Estimated Surplus/Deficit for 2020/21 – Council Tax

- 4.1 As at 31st March 2021 the Collection Fund is estimated to have a deficit of £892,766 for Council Tax relating to the Financial Year 2020/21.
- 4.2 The primary reasons for this significant deficit in year are due to an increase in working age claimant numbers under the Local Council Tax support scheme along with a reduction in the in-year collection rate, both of which are as a result of the Covid19 pandemic.
- 4.3 In addition to declaring the estimated surplus or deficit position on the Collection Fund for the current financial year the Council is also required to declare any surplus or deficit relating to the difference between previously declared surplus/deficit positions and the actual outturn position as reported in the Council's Statement of Accounts. In 2020/21 there is a deficit balance of £212,850 in the Collection Fund relating to previous years.
- 4.4 Based on the forecast position of the in-year Collection Fund as at 31st March 2021 and taking into account an adjustment for the difference between prior year estimates compared to the actual outturn it is estimated that there will be a deficit of £1,105,616 on the Council Tax element of the Collection Fund in 2020/21.
- 4.5 The deficit brought forward of £212,850 will be distributed in 2021/22 whereas the in-year deficit of £892,766 will be distributed over the next three years, as follows:

	2021/22 £	2022/23 £	2023/24 £	Total £
Council Tax – 20/21 estimate deficit	297,589	297,589	297,588	892,766
Council Tax - prior years deficit	212,850	0	0	212,850
Total Deficit	510,439	297,589	297,588	1,105,616

5. Strategic Priorities

- 5.1 There are no direct implications for the Council's Strategic Priorities arising as a result of this report.

6. Organisational Impacts

6.1 Finance

For City of Lincoln the financial implications of the report are summarised below:

	2021/22 £	2022/23 £	2023/24 £	Total £
Council Tax – 20/21 estimate deficit	44,595	44,595	44,594	133,784
Council Tax - prior years deficit	31,896	0	0	31,896
Total Deficit	76,491	44,595	44,594	165,680

The Council's share of the estimated deficit will be distributed as set out in the above table and will form part of the Medium Term Financial Strategy 2021-26.

As part of the Spending Round 2020 and with further details provided in the Provisional Local Government Finance Settlement, MHCLG have announced a new local tax income guarantee for 2020/21. This proposed scheme will compensate councils for 75% of irrecoverable losses incurred during 2020/21. Based on the Collection Fund deficit set out in this report, it is estimated that c£100k of compensation would be due to the Council. The actual level of compensation will be known at the end of the financial year and will be accounted for in 2020/21 and transferred to an earmarked reserve to offset against the deficits set out above.

6.2 Legal Implications including Procurement Rules

The Local Government Finance Act 1992 (as amended) requires the Council as the Billing Authority to establish and maintain a Collection Fund and report each year on surplus and deficits by the 15th January each year.

7. Risk Implications

- 7.1 The key risks associated to this report are financial, in terms of the accuracy of forecasts to arrive at the estimation of the deficit determined for the year 2020/21. Officers will continue to track and monitor the collection fund performance. The Council's performance on recovery of Council Tax, both in-year and for its overall recovery rate needs careful monitoring as does monitoring of trends in Local Council Tax Support scheme claimant numbers. The performance of the Collection Fund is included within the relevant directorate risk register and monitored accordingly.

8. Recommendations

- 8.1 The Executive are recommended to confirm the action of the Chief Finance Officer in declaring a Council Tax deficit of £1,105,616.

Is this a key decision?

No

Do the exempt information categories apply?

No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?

No

How many appendices does the report contain?

None

List of Background Papers:

None

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