



Leeds
CITY COUNCIL

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Report of Head of Democratic Services

Report to Scrutiny Board (Strategy and Resources)

Date: 22 March 2021

Subject: Financial Health Monitoring and Collection Rates for Council Tax and Business Rates – 2020/21

Are specific electoral wards affected? If yes, name(s) of ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Has consultation been carried out?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Will the decision be open for call-in?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

1. Purpose of this report

- 1.1 The purpose of this report is to provide Board members with information regarding the projected 2020/21 financial health position of those service areas that fall within the Board's remit at Months 9 (December) and 10 (January) of the financial year.
- 1.2 In addition at Appendix 3 further information is provided on Council Tax and Business Rates collection rates in 2020/21 following interest expressed by board members earlier in the municipal year and a previous update report considered by the Board in November 2020.
- 1.3 Covid-19 has had a significant impact on collection rates for both Council Tax and Business Rates and both income streams have been subject to additional grant monies from Government during 2020/21. The impact of Covid-19 on these income streams forms the basis of scrutiny board interest in this area.

2. Background Information

- 2.1 The net revenue budget for the general fund for 2020/21 was set at £525.7m with a savings target of £28.4m identified before the emergence of the Covid-19 pandemic.
- 2.2 Council Tax and Business Rates are key elements of the local authority funding mechanism. In Leeds they provide a significant sum of money each year that is used to fund local services accessible to local residents and businesses.
- 2.3 For 2020/21 the Council budgeted to receive £398.5m in Business rates income and a further £398m in Council tax income. These figures reflect the budgeted position in February 2020 prior to Covid-19 and the impact it would have on local authority finances and the ability of businesses and residents to pay Business Rates and Council Tax in the way that they had done in previous years.

3. Main issues

Council Tax and Business Rate Collection

- 3.1 A briefing note setting out the impact Covid-19 has had on collection rates is attached at Appendix 3 for Board members reference. This note provides an update on the current position and also provides comparison with collection rates in previous years that were not impacted by the Covid-19 pandemic.
- 3.2 Also included in the note is an explanation of how the Collection Fund works. The Collection Fund means that Councils are able to plan for any volatility in the amount of Council Tax and Business Rates they collect in year by delaying the impact into the following financial year. This means that the impact of the deficit emerging in Council Tax and Business Rates received in 2020/21 would not normally be felt until 2021/22. However, recognising the potential scale of the impact of deficits on local authority budgets in 2021/22 Government has announced that deficits arising in 2020/21 can be spread over three years. The latest position on this estimates a shortfall of £54.1m which will be factored into the projected budget gaps in 2021/22, 2022/23 and 2023/24.
- 3.3 The current estimates for collection rates of Council Tax suggest that the collection rate will fall to 94.1% from a target of 96.1%, equating to a further reduction in expected in year income of £7.8m after the application of £8.9m of Hardship Grant funding which has reduced the bills of Council Tax Support recipients.
- 3.4 For Business Rates the position is more challenging as one might expect given the impact the pandemic has had on businesses, particularly in the hospitality sector. The Government introduced a series of Business Rates Reliefs giving 100% relief for businesses in the retail, leisure childcare sectors generating a £72.3m deficit (Leeds City Council's share) on the collection fund in 2020/21, for which grant funding will be received in full. Beyond this, Business Rates income has gone down due to a contraction of the tax base in 2020/21 (£11.2m), an increase in the number of appeals against rateable value requiring higher provisions in 2020/21 (£9.1m), a projected increase in empty rates relief (£4.8m) and a persistent increase in Small Business Rates (£1.6m). In addition to these challenges, collection rates have

reduced significantly and the Council expects to have to make additional provisions for bad debt of £7.2m due to this.

- 3.5 Grant of £75.5m will be carried forward into 2021/22 to part-fund the Business Rates deficit position on the Collection Fund, reducing the financial impact of COVID-19 on the 2021/22 budget, though this funding is not sufficient to fully meet the anticipated pressure on the Collection Fund in 2021/22. Taking account of this additional grant, the resulting comparison with the 2020/21 net revenue budget would be an adjusted reduction of £14.9m.
- 3.6 The Council has agreed to a number of deferment arrangements for both residents and businesses in relation to the payment of Council Tax and Business Rates. This has meant that some made no payments in the first three months of the financial year instead spreading the cost of their bill over the remainder of the year. The lower collection rates set out in Appendix 3 take account of these deferral arrangements.
- 3.7 Looking further ahead it is expected that Businesses will continue to face difficulty paying Business Rates in 2021/22 due to the ongoing impact of the Covid-19 pandemic and the continuation of lockdown into the early months of financial year 2021/22.
- 3.8 The Budget announcement on 3 March 2021 provided more detail on support for businesses in 2021/22. In the announcement the government committed to provide eligible retail, hospitality and leisure properties in England with 100% business rates relief from 1 April 2021 to 30 June 2021. This will be followed by 66% business rates relief for the period from 1 July 2021 to 31 March 2022, capped at £2 million per business for properties that were required to be closed on 5 January 2021, or £105,000 per business for other eligible properties. Nurseries will also qualify for relief in the same way as other eligible properties. When combined with Small Business Rates Relief, this means 750,000 retail, hospitality and leisure properties in England will pay no business rates for 3 months from 1 April 2021, with the vast majority of eligible businesses receiving 75% relief across the year. Local authorities will be fully compensated for the loss of income as a result of these business rates measures and receive new burdens funding for administrative and IT costs.

Financial Health Monitoring Month 9 and Month 10

- 3.9 Covid-19 has had a dramatic impact on the financial outlook of the Council creating significant pressures on the authority's income streams and also leading to additional expenditure. The Directorate Dashboards set out in Appendices 1 and 2 highlight a Covid-19 related budget pressure of £183.7m before proposals to balance and the application of Government grant.
- 3.10 The Council has received £72.2m of Government funding towards the costs of COVID-19 to date, of which £2.6m has been applied in 2019/20, leaving £69.6m available. On 2nd July Government announced a further package of financial support for Local Government as a consequence of which £18.9m has been claimed with an estimated further £8m to be received for the remainder of the financial year in relation to lost income. Application of this £96.5m of grant in 2020/21 would reduce the COVID financial pressure to £87.2m. Non-COVID savings of £16.2m, including savings resulting from the Early leavers Initiative, reduce this gap to £71.0m

- 3.11 Following a decision to use one off capital receipts which have become available through recognising the capital distribution from the pre-payment of rent at Merrion House the Council did not need to apply for a capitalisation directive to Government as had looked possible earlier the year. Of the £23.4m of available capital receipts, £17.15m has been applied to the current COVID funding gap. It is also proposed to utilise £3.5m of Adults and Health earmarked reserves whilst £0.5m remains from the £1.5m set aside through the flexible use of capital receipts for transformational expenditure and this can be used to fund ELI payments. The remaining budget pressure of £49.9m relates to losses in Council Tax and Business rates which are dealt with in the following year through the Collection Fund.
- 3.12 Details of the Council's overall projected 2020/21 financial health position at Months 9 and 10 were reported to the Executive Board at its meetings on 10 February and 17 March 2021. The two reports are attached at Appendices 1 and 2 for the Board's consideration.

4. Consultation and engagement

- 4.1.1 The Council's financial health monitoring is a factual report and is not subject to consultation. The information on Council tax and Business rate collection in 2020/21 has been brought forward following requests for additional information on them from members of Scrutiny Board Strategy and Resources.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 The Scrutiny Board Procedure Rules state that, where appropriate, all terms of reference for work undertaken by Scrutiny Boards will include 'to review how and to what effect consideration has been given to the impact of a service or policy on all equality areas, as set out in the Council's Equality and Diversity Scheme'.

4.3 Council policies and the Best Council Plan

- 4.3.1 The terms of reference of the Scrutiny Boards promote a strategic and outward looking Scrutiny function that focuses on the Best Council objectives.
- 4.3.2 This report comments on the impact reduced collection rates for Council Tax and Business Rates has on the revenue budget in 2020/21 and savings proposals for 2021/22. Understanding this impact supports the Best Council ambition of offering value for money through being an efficient and enterprising organisation as does the financial performance information contained in the Executive Board reports in Appendices 1 and 2.

Climate Emergency

- 4.3.3 When considering areas of work, the Board is reminded that influencing climate change and sustainability should be a key area of focus. However, there are no specific implications for the Climate Emergency contained in this report.

4.4 Resources, procurement and value for money

- 4.4.1 The financial implications of reduced income from Council Tax and Business Rates are detailed in the briefing note at Appendix 3. All resources, procurement and

value for money implications are detailed in the main body of the attached Executive Board reports.

4.5 Legal implications, access to information, and call-in

4.5.1 This report has no specific legal implications.

4.6 Risk Management

4.6.1 This report has no specific risk management implications.

5. Conclusions

5.1 The attached Executive Board reports present the Council's overall projected 2020/21 financial health position at Months 9 and 10 of the financial year. The financial challenge posed by Covid-19 is unprecedented and the overall overspend highlighted in this report of £183.7m represents more than a third of the net revenue budget for 2020/21. The scale of the challenge is therefore clear and given the longer term impact on the Collection Fund and the continuing challenge posed by the Covid-19 pandemic that challenge looks set to continue into future financial years.

5.2 The pandemic has had a significant impact on the ability of residents and businesses to pay their regular bills, Council Tax and Business Rates being two such examples. This shortfall in income will have an impact on the availability of resources to the Council in 2021/22 and contributes significantly to the budget challenge faced by the authority in that year and the years that follow.

6. Recommendations

6.1 The Scrutiny Board (Strategy and Resources) is asked to consider this report and attached appendices and agree any specific scrutiny actions that may be appropriate.

6.2 Background Documents¹

None.

¹ 1 The background documents listed in this section are available to download from the council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.