

PFCC Decision Report

Report reference number: 142-23

Classification: Official

Title of report: Council Tax Sharing Agreement with Essex Districts for 2023/24

Area of county / stakeholders affected: Countywide.

Report by:

Janet Perry, Chief Financial Officer, and Strategic Head of Performance & Resources

Chief Officer:

As above

Date of report: 05 September 2023

Enquiries to:

janet.perry@essex.police.uk

1. Executive Summary

- 1.1 To seek approval from the Police Fire and Crime Commissioner for the Council Tax Sharing Agreement with Essex Districts for 2023/24.
- 1.2 The key principles of the Council Tax Sharing agreement are to ensure a collaborative approach across all Districts in Essex and the major preceptors to maximise council tax collections across the county and to reduce fraud and ensure compliance.

2 Recommendations

- 2.2 It is recommended, that in respect of the Police Fire and Crime Commissioner (PFCC) and Essex Police, that the PFCC enters into a one-year Council Tax Sharing Agreement, with the Essex Districts for 2023/24, with an optional 2-year extension period. This is the same agreement that is being recommended under the Essex Police, Fire and Crime Commissioner Fire and Rescue Authority Decision Report 037-23.
- 2.3 As the Council Tax Sharing Agreement has an option to extend for a further 2 years. A further decision will be presented on the extension later in the financial year. The contract states that this must be done four months before the end date, which is 31 March 2024, so we are expecting this before the end of November.
- 2.4 The Council Tax Sharing Agreement will result in a saving of £174,003 in 2023/24. The saving comprises a cost reduction of £366,538 from the incentive payment percentage of the financial shareback payments to districts, and an increase of £192,535 in the fixed investments to districts, which will be spent directly on their collection and compliance teams.
- 2.5 It is recommended that the PFCC delegates the signing of the Council Tax Sharing agreement with the districts, to his Chief Financial Officer. The agreements have been set up by Essex County Council to be digitally signed by the S151 Officers using Docsign.

2. Background to the Proposal

- 3.1 The collection of council tax is a district and unitary council function and the cost of collecting council tax is met by these councils.
- 3.2 From the financial year 2013/14 the Government reduced its funding of council tax benefits from 100% of payments to 90%. Since then, the districts and unitary council functions and major preceptors have worked in partnership to drive up collection rates. To mitigate the initial impact of the 10% reduction to the grant from central government. Council tax sharing agreements for this purpose have continued in some form since that date.
- 3.3 As part of the existing Council tax sharing agreement that is in place, contributions are made by all parties to improve performance in the collection of council tax. This is done by investing into the Collection Investment Fund to help increase collection rates and into the Fraud and Compliance Contribution Fund to combat and identify council tax fraud. This investment provides funding to the District Councils for additional staff resources. The amount of funding allocated is currently based on 2014/15 council tax rates.

- 3.4 The District Councils also receive an additional incentive through a financial 'shareback' arrangement. This is in addition to the money that District Councils would normally keep which is an average of 12p for every £1 of council tax collected. Additional income is calculated by taking each district's base income from 2012/13, which is the year before the original Sharing Agreement was put in place. The 2012/13 council tax income collected by the district councils is then adjusted upwards to account for any natural growth in the taxbase or tax rises. Any income collected above this level is classified as 'additional income.'
- 3.5 In the original 2013/14 agreement, the financial shareback was 16% of the 'additional income' collected, reducing to 14% in 2019/20. For the two-year agreement covering 2020/21 and 2021/22, a tapered shareback of 12% to 14% was introduced based on performance. For the current 2022/23 agreement, a stepped approach to the shareback was introduced using the same lower threshold percentage of 12% and an upper threshold of 14%.
- 3.6 In 2021/22, the total additional income collected across Essex equalled £39m, with the Council receiving £28m and £11m being received by the District Councils and the other major preceptors. Out of the Council's proportion, £4m was paid to the District Councils for the financial shareback incentive payment, resulting in a net benefit to ECC of £24m.
- 3.7 A benchmarking exercise carried out during 2022/23 by Essex County Council which has suggested average council tax collection rates across Essex are slightly below average when compared to our statistical neighbours such as Kent, Sussex, Hertfordshire, and other similar-sized counties across the UK. When analysing in-year collection rates, Essex was lower (on average) in 2020/21 with the collection rate falling by a larger amount during the pandemic than almost all counties in the East of England.
- 3.8 However, when comparing counties with similar levels of deprivation, Essex authorities benchmarked around the average for collection rates, and the value of council tax discounts was proportionally less than our statistical neighbours. Furthermore, there are other factors that collection rate data does not consider, such as the collection of income relating to prior years (e.g., council tax collected through pre-payment plans). The value of prior year income increased significantly post-COVID, which might also explain why the in-year collection rate has dropped slightly.
- 3.9 In summary, the results of Essex County Council's benchmarking exercise were inconclusive, but suggested Essex local authorities should strive to be a successful collection rate outlier when compared to our statistical neighbours. The current sharing agreement system has been in place with relatively little change since its introduction, and therefore updating and refreshing the methodology is necessary to facilitate improvements. The proposed changes to the existing contractual arrangements which it is recommended are adopted in the new Council Tax Sharing Agreement are set out below.

Fixed Investment

- 3.10 From 2023/24, it is proposed that the total investment from the major preceptors into the Collection Investment Fund will increase to £2m per annum, to facilitate further improvements in council tax collection. The total contribution for 2023/24 for the PFCC/Essex Police will be £257,845 (2022/23 £83,689).
- 3.11 All parties in the 2023/24 Council Tax Sharing Agreement will continue to invest in combatting and identify council tax fraud. The total investment into the Fraud and Compliance Contribution is £922,000, of which the PFCC/Essex Police will contribute £87,767 (2022/23: £87,767)
- 3.12 The above investments are known as 'fixed investments' as they are not linked to performance and do not vary accordingly. Although allocations to the District Councils may vary, if tax rates or qualitative factors change between years, the overall level of investment from the major preceptors to the billing authorities will remain the same year-on-year.
- 3.13 The allocation method for funding withdrawn from the Collection Investment Fund is updated for the 2023/24 financial year. In prior years, funding was allocated based on 2014/15 Council Tax rates, whereas now the Collection Investment Fund will be allocated based on a combination of qualitative factors, including the size of each district's taxbase and an estimation of each district's level of deprivation, with more funding being allocated to districts that are more deprived and/or have a larger taxbase. This will ensure the allocation of funding is more equitable and based on the latest available data. These changes are reflected in the 2023/24 Council Tax Sharing Agreement.
- 3.14 Each District Council will receive an allocation of money from the major preceptors for the 'Hardship Fund.' This fund is used to help residents who are struggling with short-term financial issues to pay their council tax bills. Although the hardship fund has been in-place for several years, the 2023/24 Sharing Agreement will double the amount available from £165,000 to £330,000 per year.
- 3.15 In 2023/24 the PFCC/Essex Police will contribute £37,373 (2022/23: £18,994) into the Hardship Fund. The fixed investments all have conditions attached to them in terms of how the money can be spent. The money in the Collection Investment Fund and the Fraud and Compliance Investment Fund can only be spent on resources that specifically improve council tax collection and compliance. This could be from employing internal resources or procuring specialist help from external organisations.

- 3.16 The District Councils will need to provide evidence the money has been spent appropriately each year. Other details, such as the structure of collection and compliance teams will also need to be provided, to identify total resource available. Failure to supply this information or appropriately spend the money will result in a proportion of, or all the funding being withdrawn. This should ensure sufficient resource and professional expertise is available to the District Councils, which will facilitate improvements in council tax collection.
- 3.17 The Hardship Fund will also require the District Councils to provide a record to the Council of how many residents they have helped support and the overall amount that has been spent. If any balances are remaining at year-end, the unspent money will need to be repaid to the major preceptors based on the original apportionment made into the fund.

Financial Shareback Arrangement

- 3.18 In the new agreement for 2023/24, it is proposed that the financial shareback percentages are reduced to a lower threshold of 6% and an upper threshold of 9% because the 2023/24 agreement will be more focused on the provision of fixed investments that are ringfenced for a specific purpose as set out above.
- 3.19 Each District Council will only receive the upper 9% threshold of shareback if they are able to achieve a collection rate of 98% or greater and generate more council tax income than they had in the previous year after adjusting for increases in the number of dwellings and council tax rises (the additional income). The shareback percentage is applied to the additional income generated by each District Council and assessed individually.
- 3.20 If a District Council does not achieve an income collection level that achieves the upper threshold, but the overall average income collection across all District Councils is greater than the previous year, then the lower threshold increases from 6% to 7%.
- 3.21 This shareback has no conditions on how it is spent by the districts. It is purely to incentivise them to collect more.
- 3.22 As a result of this change, the cost of the sharing agreement for all preceptors will be lower under this new agreement. In 2023/24 the cost of the sharing agreement for the PFCC/Essex Police is expected to be £634,535 (2022/23: £1,001,073) which is a saving of £366,538.

3. Proposal and Associated Benefits

- 4.1 The new Council Tax Sharing Agreement will result in an annual cashable saving for the PFCC/Essex Police of £174,003.
- 4.2 The districts are incentivised (via the financial shareback) to collect more. The shareback does not have any conditions on how it is spent by the districts. It is purely to incentivise them to collect more. The financial shareback is being reduced as part of the Council Tax Sharing Agreement.
- 4.3 The agreement looks to provide more investment into the Districts Collection and Compliance team, which specifically ensure the districts are providing appropriate resources to maximise Council Tax collections in each district. The districts will need to provide evidence the money has been spent appropriately each year.
- 4.4 This arrangement incentivises improvements in processes and collection activities, enabling Essex authorities to better collaborate and work together.
- 4.5 Districts regularly share data on performance, quarterly collection, team structures and spend on tax-related activities.
- 4.6 Sharing of data ensures transparency and creates discussion both external and internally on performance and what is best practice.
- 4.7 Also enables preceptors to analyse mid-year trends, improving our ability to forecast and the accuracy of budgets.
- 4.8 None of these activities are statutory and all are enforced by the Sharing Agreement

4. Options Analysis

- 5.1 The main principles of the Council Tax Sharing agreement are to ensure a joint approach in maximising income collection, reduce fraud, ensure compliance, and increase the taxbase.:
- 5.2 Other Options could include **Discontinue the arrangement**. This would result in not having any fixed investments, but Essex County Council has estimated that it would result in a loss of future council tax income collected of approximately £12.9m.

5.3 Continue the same terms as the existing Council Tax Sharing Agreement.

This is no longer an option as all Districts have agreed with the new arrangement. This might have involved continuing to contribute towards a programme of Single Person Discount Reviews and shareback incentive payment of not lower than 12% but not exceeding 14%, based on income performance targets. There would have been no change to the level of fixed investment support for either the Collection Contribution or the Fraud & Compliance Investment. The costs to the PFCC would have continued at £1,191,523 per annum with the annual saving of £174,003 not coming to fruition.

5. Consultation and Engagement

6.1 The proposals have been discussed with Essex County Council, the District and Unitary Authorities and the major preceptors through the Essex Finance Officers Association (EFOA).

7. Strategic Links

7.1 The Police and Crime plan includes collaboration as one of its priorities. The key principles of the Council Tax Sharing agreement are to ensure a collaborative approach across all Districts in Essex and the major preceptors to maximise council tax collections across the county and to reduce fraud and ensure compliance.

7.2 The sharing agreement will provide additional funding within the medium-term financial strategy.

8. Police operational implications

8.1 There are no direct operational implications for the PFCC/Essex Police.

9. Financial implications

- 9.1 As shown in the table below, the 2023/24 Council Tax Sharing agreement will result in a saving of £174,003. The saving comprises a cost reduction of £366,538 from the incentive payment percentage of the financial shareback payments to districts, and an increase of £192,535 in the fixed investments to districts, which is to be spent directly on their collection and compliance teams.

	2023/24	2022/23	Cost Pressure/ (Saving)
	£	£	£
Collection Investment	257,845	83,689	174,156
Fraud and Compliance Investment	87,767	87,767	
Hardship Fund Contribution	37,373	18,994	18,379
Total Fixed Investments	382,985	190,450	192,535
Shareback Incentive Payment	634,535	1,001,073	(366,538)
Total Annual Cost to the PFCC/Essex Police	1,017,520	1,191,523	(174,003)

10. Legal implications

- 10.1 This council tax sharing agreement provides funding to the District Councils to increase collection rates. This is allowed under the Local Government Act 1972 and the Local Government Finance Act 1992.

11. Staffing implications

- 11.1 There are no direct staffing implications for the PFCC/Essex Police.

12. Equality, Diversity, and Inclusion implications

- 12.1 The actions being taken are not expected to have a disproportionate impact on individuals with protected characteristics (as defined within the Equality Act 2010), when compared to all other individuals and are not expected to disadvantage people with protected characteristics.

13. Risks and Mitigations

- 13.1 There is a risk that the districts do not invest adequate resources into the Collection and Compliance teams, therefore negatively impacting collection rates. This proposal does negate some of this risk, by providing more fixed investment into the teams.

14. Governance Boards

14.1 The proposals have been discussed with the Essex County Council, the District and Unitary Authorities and the major preceptors through the Essex Finance Officers Association (EFOA).

15. Links to Future Plans

15.1 The sharing agreement will provide additional funding within the medium-term financial strategy and will therefore assist with the funding of future plans.

16. Background Papers and Appendices



2023-24 Sharing
Agreement - FINAL (1)

Report Approval

The report will be signed off by the PFCC's Chief Executive and Chief Finance Officer prior to review and sign off by the PFCC / DPFCC.

Chief Executive / M.O.

Sign:



Print:

Darren Horsman - Deputy MO

Date:

5/10/2023

Chief Financial Officer

Sign:



Print:

Janet Perry

Date:

06 September 2023

Publication

Is the report for publication?

YES

NO

If 'NO', please give reasons for non-publication (Where relevant, cite the security classification of the document(s). State 'None' if applicable)

None

If the report is not for publication, the Chief Executive will decide if and how the public can be informed of the decision.

Redaction

If the report is for publication, is redaction required:

1. Of Decision Sheet?

YES

2. Of Appendix?

YES

NO

NO

If 'YES', please provide details of required redaction:

N/A

Date redaction carried out:

Chief Finance Officer / Chief Executive Sign Off – for Redactions only

If redaction is required, the Treasurer or Chief Executive is to sign off that redaction has been completed.

Sign:

Print:

Chief Executive / Chief Finance Officer

Decision and Final Sign Off

I agree the recommendations to this report:

Sign: 

Print: Roger Hirst PFCC

Date signed: 05/10/2023

I do not agree the recommendations to this report because:

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Sign:

Print:

PFCC/Deputy PFCC

Date signed: