

Forward Plan reference number: FP/293/11/23

Report title: Council Tax Sharing Agreement 2024/25 and 2025/26	
Report to: Councillor Chris Whitbread, Cabinet Member for Finance, Resources and Corporate Affairs	
Report author: Nicole Wood, Executive Director: Corporate Services	
Date: 12 March 2024	For: Decision
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County Divisions affected: All Essex	

1. Everyone's Essex

- 1.1 Everyone's Essex sets out four strategic aims and 20 commitments for Essex County Council to deliver over the next 4 years. These proposals ensure that the council can maximise the amount of council tax collected in 2024/25 and 2025/26, which will enable Essex County Council to invest more into the services provided to our residents, contribute to improving the local infrastructure, and explore opportunities to grow the local economy while meeting our commitments to delivering environmentally sustainable and green policies.

2. Recommendations

- 2.1 Agree to enter into a new Council Tax Sharing Agreement for two financial years from 1st April 2024 with additional shareback dependant on council tax collection performance of the Essex borough, city and district councils as set out in option 1 within section 5 of this report, as well as a fixed investment of £3.3m for each financial year, of which ECC will contribute £2.6m per financial year with the remaining funding coming from Essex Police and Crime Commissioner, and the Essex Fire & Rescue Authority.
- 2.2 Agree that £215,000 from the Collection Fund Risk Reserve will be drawn down across the 2024/25 and 2025/26 financial years, to fund a two-year programme of Single Person Discount Reviews, and to enter into an agreement with the Essex borough, city, and district councils for this purpose.

3. Background and Proposal

Council Tax Sharing Agreement - General

- 3.1 When Council Tax benefit was replaced with local council tax reduction schemes in 2013/14, Essex County Council (the Council) took the opportunity to work in partnership with the Essex borough, city, and district councils (the districts), as well as the Essex Police and Crime Commissioner, and the Essex Fire & Rescue Authority, in order to mitigate the initial impact of the 10% reduction to the grant from central government, and to drive up collection and increase the tax base.
- 3.2 The sharing agreement has gone through several iterations since its introduction, with the latest version being implemented during the 2023/24 financial year, with the decision to implement the existing methodology agreed in March 2023 (FP/047/02/23). This placed greater emphasis on ensuring billing authority's collection and compliance teams were appropriately resourced, while still providing a financial incentive payment for districts to improve the overall amount of council tax income that they could collect.
- 3.3 As part of the existing agreement that is in place, the Council, Essex Police and Crime Commissioner, and the Essex Fire & Rescue Authority contribute funds to the District Councils to improve performance in the collection of council tax. Through this agreement, ECC invests a total of £2.6m per financial year into the Collection Investment Fund to help increase collection rates, the Fraud & Compliance Contribution Fund to combat and identify council tax fraud and the Hardship Fund', in which all Essex authorities contribute into to provide support for residents who are in temporary financial hardship. The fund is used to partially reduce their council tax burden.
- 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 10-12p for every £1 of council tax collected. Through this arrangement, the districts will retain a further 7-9p for every £1 of 'additional' council tax income collected. Additional income is calculated by taking each district's base income from 2012/13 (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 The current agreement commenced on 1st April 2023 for a term of 1 year with the option to extend for an optional two-year period, and the current agreement is due to expire on 31st March 2024. Although the existing contract has the option to extend for a further 24 months, it is proposed to enter into a new two-year contract commencing on the 1st April 2024. The principles for the fixed investment, shareback incentive payments, and existing reporting materials required will remain in the new contract. The main changes, compared to the existing methodology, include extending the Single Persons Discount reviews allocation for a further two financial years, and making it mandatory for district

authorities to provide financial information on their future year council tax and business rate forecasts during ECC's budget setting period in the timely manner, which is incredibly important when setting an accurate and balanced budget ahead of Full Council and publishing the Annual Plan. The option to extend the 2023/24 sharing agreement expired on the 30th November 2023, and a new contract will ensure all parties are officially bound to the conditions of the agreement until the 31st March 2026.

- 3.6 The implementation of the existing agreement in 2023/24 has been successful. The overall allocation of investment has been reduced in-line with the existing methodology, with the overall apportionment of investment moving towards an increase in investment in the teams that are responsible for collection and compliance, more money being made available via the Hardship Fund to ensure residents struggling to pay their council tax bill have more financial support, and less money being provided via the shareback incentive payment. The percentage awarded to districts that earn above the baseline has now been reduced to 7% for the lower threshold and 9% for the upper threshold, while overall fixed investments have increased from £1.4m per annum to £2.6m. This movement created an overall £1m reduction in the budgeted cost of the 2023/24 Sharing Agreement for ECC compared to the previous financial year.
- 3.7 The current methodology has enabled us to get a better understanding of how the fixed investment are utilised by billing authorities and the overall structures of both compliance and collection teams. The sharing of structure charts and team spend has enabled us to analyse where certain authorities spend more, how this correlates with performance, and in the process, we have noticed certain authorities that might benefit from further investment in their teams. We have encouraged some authorities to spend more, outlining the potential benefits this could have for all Essex authorities' overall funding levels, and over the coming years, we are looking to use the sharing agreement to encourage these districts to further bolster their teams and monitor what financial benefit this brings to their taxbases and council tax collectable debit.
- 3.8 The implementation of these changes has been a great success, strengthening the existing working relationship with all Essex authorities and enabling us to work more collaboratively with our local government colleagues through the county, as we all strive for continuous improvement to minimise fraud and maximise the financial benefit of council tax income collection.
- 3.9 Information sharing, beyond the notification of council tax and business rate budget precepts, is not a statutory requirement and would not be made available without the existence of the sharing agreement. It provides us with insight into the differences between district authorities, allowing us to identify areas that may require more investment or enforce the conditions of the agreement, and provides us with an ongoing analysis of the overall local tax funding position, so that we can either recognise opportunities or pressures in a timely manner and set appropriate budget targets that maximise our available funding and ensure a balanced budget over the medium-term.

- 3.10 A Benchmarking exercise carried out during 2022/23 has suggested Essex's council tax collection rates are slightly below average when compared to our statistical neighbours. When analysing in-year collection rates, Essex was lower (on average) in 2020/21 than most home counties with the collection rate falling by a larger amount during the pandemic than almost all counties in the east of England.
- 3.11 However, when comparing counties with similar levels of deprivation, Essex authorities benchmarked around the average for collection rates, and the value of council tax support was proportionally less than our statistical neighbours. Furthermore, there were other factors that collection rate data did not consider, such as the collection of income relating to prior years. Prior year income accounted for almost £18m of all council tax income collected across ECC districts (almost 2% of total collection for the year).
- 3.12 The Q2 in-year position suggests that the cost of the agreement to ECC, Essex Fire & Rescue Authority, and the Essex Police & Crime Commissioner, has decreased in-line with our expectations.
- 3.13 In summary, the results of our benchmarking exercise and recent council tax collection data suggested that Essex's average collection rate remains resilient, despite the recent economic challenges, and when combined with the ongoing high levels of income collection in relation to prior years, we continue to meet our targets for overall tax collection. Provisional returns for the 2024/25 budgets also demonstrate a strong taxbase resilient, with an assumed collection rate of 98% - above the national average – and overall taxbase growth of 1.1% demonstrates that our primary source of funding continues to grow, enabling all Essex authorities to continue to provide quality services to local residents.
- 3.14 The impact of removing the sharing agreement completely during the current economic circumstances could be a big shock to the collection teams across the county, particularly in the short-term. There would be less funding available to district authorities to employ collection and compliance officers, which would reduce the effectiveness of their teams and result in both lower collection rates and a rise in unidentified cases of council tax fraud. The lack of insight and data sharing from other Essex authorities could reduce our ability to accurately forecast changes to the taxbase, which might adversely impact our ability to plan and make appropriate long-term financial decisions. This does not mean that we should remain static over the next two years, however, and continuous improvement through improving the taxbase and working with partners to prevent fraud is essential to validate the continuation of the agreement over the long-term.
- 3.15 If the proposals set out in this report are approved, all Section 151 officers that represent the partner authorities will be required to sign up to the new Sharing Agreement for two financial years, in 2024/25 and 2025/26.

Review of Single Person Discounts

- 3.16 In 2023, 33% of the dwellings on the valuation list in Essex received a 25% single person discount (SPD). This number has been growing steadily each year. A resident can claim SPD when they are the only adult eligible to pay council tax living in a property. Whilst the data matching software, and National Fraud Initiative matching does identify cases of fraudulent claims for this discount, expansion into using credit reference agency matching is likely to yield further results.
- 3.17 Incorporating credit reference data into the existing data matching software would not be financially viable as the system is designed so that it would undertake a credit reference check for all entries, therefore incurring significant additional costs.
- 3.18 There will be an overall allocation of funding made available for districts to procure third-party providers that will carry out these Single Person Discount reviews. The reviews that have been carried out so far having substantial financial success. We therefore will be incorporating these reviews into the existing Sharing Agreement going forward for the next two financial years. There remains six district authorities that are yet to carry out these reviews and those that have carried out reviews have suggested further reviews would continue to deliver returns to the taxbase that exceed the required investment.
- 3.19 In the new agreement, it will be compulsory for the six district authorities who have not completed these reviews to commission a third-party to undertake a SPD reviews on behalf of the Council by the 31 March 2025, and for the authorities who have already completed one round of reviews to commission a third-party to undertake a SPD review on behalf of the Council by the 31 March 2026.
- 3.20 The results from authorities that have completed these reviews are summarised in section 6.1.7 of this report.

4. Links to our Strategic Ambitions

4.1 This report links to the following aims in the Essex Vision

- Enjoy life into old age
- Provide an equal foundation for every child
- Strengthen communities through participation
- Develop our County sustainably
- Connect us to each other and the world
- Share prosperity with everyone

4.2 Approving the recommendations in this report will have the following impact on the Council's ambition to be net carbon neutral by 2030:

- Enables the council to maximise the amount of funds available to spend on environmental policies and reducing the carbon footprint of Essex County Council.

4.3 This report links to the following strategic priorities in the Organisational Strategy 'Everyone's Essex':

- A strong, inclusive, and sustainable economy
- A high-quality environment
- Health wellbeing and independence for all ages
- A good place for children and families to grow

5. Options

5.1 Option 1: Enter into a new Council Tax Sharing Agreement for a 2 year period – Recommended. The proposal would continue the current arrangement of providing a benefit to districts of not lower than 6% but not exceeding 9% of the additional income collected, based on income performance targets. It maintains the amount of fixed investment support to districts with conditions to ensure this support is used to bolster collection and compliance teams. Without these incentives the district will be unable to collect income at the rate which achieves the 9% threshold, this will enable ECC to maintain a net £7.2m per annum increase in Council tax compared to the option of discontinuing the sharing agreement. ECC will receive an additional £13.8m per annum from the improved collection rates and increased growth in the taxbase but will spend c.£6.6m per annum funding the districts and contributing to support struggling residents via the Hardship fund. Single Person Discount reviews have to date delivered an estimated ongoing financial benefit of £739,000 per annum, which is part of the council taxbase built into the latest budget. Continuing to encourage the districts to undertake these reviews is expected to identify and prevent fraud, as well as delivering a further ongoing financial benefit to the taxbase of up to £1.8m per annum, with a one-off cost of £215,000.

5.2 Option 2: Continue the Sharing Agreement and Discontinue the Single Person Discount Reviews. Similar to option 1, this is estimated to maintain a net £7.2m increase per annum in council tax income for ECC, compared to discontinuing the sharing agreement. However, the ongoing benefit delivered from Single Person Discount reviews, which is estimated to generate an ongoing financial benefit to the taxbase of up to £1.8m per annum, will be forgone.

5.3 Option 3: Discontinue the arrangement. This would release budget of £6.6m per annum and require no drawdown from the Transformation Reserve. However, this would result in the districts not being able to fund fixed term roles which are paid for from the investment provided for increased collection. Some districts have also indicated that without the additional money received from the agreement (both the contributions and the shareback), it would not prove financially viable for them to continue to operate their local council tax support schemes as they currently do due to the administration costs involved and less incentive for them to share monitoring and budget information with the precepting authorities. This could result in them increasing council tax discounts offered or

making the council tax reduction scheme more favourable so that their schemes become less complex to administer. Whilst the districts would lose on their own tax take, for some this could be outweighed by the saving on administration costs. In the longer term a reduction in resources expended on collection would have an adverse impact on the level of council tax collected across the county, and therefore the County Council's council tax income.

6. Issues for consideration

6.1 Financial implications

- 6.1.1 The approved budget for the 2024/25 Council Tax Sharing Agreement will remain at £6.6m. This budget will be used to cover both the fixed investments and the shareback incentive payments, as described in section 3.
- 6.1.2 The recommended sharing agreement option will result in either additional council tax income being received, or a saving arising from a reduction to the shareback percentage, dependant on performance by individual districts. In its first year of implementation (2023/24), the existing sharing agreement methodology has proven to be successful in achieving the financial goals that it set out to achieve. The current agreement has been successful in delivering the agreed £1m savings target for 2023/24 and looks on-track to deliver this saving each year for as long as these arrangements are continued. Furthermore, based on the provisional budget returns, the districts are forecasting strong taxbase resilience into 2024/25 and are anticipating an overall collection rate of 98% and growth in the final adjusted taxbase of over 1%, even during the ongoing cost-of-living challenges facing local residents. Both the budget and in-year actuals can change between now and year-end, however, recent projections remain favourable to the overall council tax position across the county of Essex and provides us with a stable base for the council's largest source of funding.
- 6.1.3 The recommended option is estimated to generate a further £7.2m of income for 2024/25, based on the information provided by the districts on the amount of council tax they expect to collect. The breakdown of this benefit is set out in the table below:

Council Tax Sharing Agreement 2024/25 & 2025/26

Options	Council Tax Income Collected (ECC) £m	Budgeted Shareback Cost to ECC £m	Budgeted Fixed Investment Cost to ECC £m	Total Net Income from Council Tax (ECC) £m
Option 1 (recommended) - Extend Agreement; Continue SPD	817.8	(4.1)	(2.6)	811.1
Option 2 - Extend Agreement; Discontinue SDP	817.8	(4.1)	(2.6)	811.1
Option 3 - Discontinue Sharing Agreement	803.9	0.0	0.0	803.9
Net Estimated Benefit / (Cost) to ECC of the Sharing Agreement:				
Option 1 vs. Option 2	0.0	0.0	0.0	0.0
Option 1 vs. Option 3	13.8	(4.1)	(2.6)	7.2

6.1.4 It is worth noting that shareback is linked to performance, and therefore the better districts perform, the higher the cost to ECC.

6.1.5 A stepped approach to the shareback payment means districts will only receive a shareback percentage of 6%, 7%, or 9%, based on their performance. If performance exceeds the previous year, or if the collection rate is above 98%, districts will receive a 9% shareback. If the overall performance for all districts is greater than the previous year, then the minimum percentage for the districts is 7%. However, if none of these criteria are achieved, then the districts will only receive 6%. The existing approach has encouraged individual districts to improve collection and be more proactive around finding new ways of achieving more income.

6.1.6 Continuing the work with the districts on schemes, such as the Single Persons Discount reviews, and continuing to share information and insight via the Data Analysis team, also has the potential to contribute to further grow the taxbase and council tax income collection beyond what is achievable via the standard sharing agreement benefits. Despite only investing circa £59,000 in total across 5 districts who have carried out these reviews, the districts have identified £1.3m of financial benefit, with £1m expected to be an ongoing improvement to the overall taxbase, of which ECC is expected to receive £739,200 of financial benefit per annum. The plan to undertake a new round of SPD reviews of £215,000, allocated based on the number of SPD claimants per district, is expected to have an ongoing net financial benefit to all Essex authorities while disincentivising people from engaging in fraudulent activities. It will be compulsory for districts to undertake these reviews in an allocated timeframe, so that all Essex authorities can benefit from these reviews taking place and to deter local tax fraud on a countywide level.

6.1.7 It should be noted that all benefit generated via these reviews will not come as a direct payment to ECC, but rather through the taxbase or collection fund. Therefore, we will not specifically be able to identify the additional council tax income. It will instead be realised when the district's set their council tax

precepts, particularly when growth in the taxbase is higher than previously expected.

District	ECC Investment £000	Total Amount Saved £000	Reoccurring (est) £000	SPD Taxbase (Band D eq.)	One off (ECC share) £000	Reoccurring (ECC share) £000
Basildon	20.3	448.0	358.4	21,485	314.9	251.9
Brentwood	8.6	196.0	156.7	11,034	142.9	114.3
Colchester	11.0	463.4	370.7	23,669	334.1	267.3
Rochford	9.3	24.4	19.5	9,928	17.0	13.6
Uttlesford	9.8	162.3	129.8	10,652	115.1	92.1
Total (to date)	59.0	1,294.1	1,035.1	76,768	924.1	739.2
<i>Estimated Benefit from All Essex District Councils</i>		<i>3,168.1</i>	<i>2,534.0</i>	<i>187,936</i>	<i>2,262.3</i>	<i>1,809.5</i>

* Estimates of potential financial benefit from remaining authorities purely based on run-rates (average savings per SPD household from the reviews carried out to date. Circumstances for each district may vary, meaning more or less financial benefit might be realised from future reviews

6.2 Legal Implications

6.2.1 This scheme is ECC providing funding to district councils in order to increase collection rates. ECC is allowed to do this under the Local Government Act 1972 and the Local Government Finance Act 1992.

7. Equality and Diversity implications

- 7.1 The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires us to have regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful
 - Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 7.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).
- 7.3 The Equalities Comprehensive Impact Assessment indicates that the proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

8. Appendices

8.1 ECIA

9. List of Background papers

None

<p>I approve the above recommendations set out above for the reasons set out in the report.</p>	<p>Date</p>
<p>Councillor Chris Whitbread, Cabinet Member for Finance, Resources and Corporate Affairs</p>	<p>17.04.24</p>

In consultation with:

<p>Role</p>	<p>Date</p>
<p>Executive Director, Corporate Services (S151 Officer)</p>	<p>05.04.2024</p>
<p>Stephanie Mitchener on behalf of Nicole Wood</p>	
<p>Director, Legal and Assurance (Monitoring Officer)</p>	<p>03/04/2024</p>
<p>Susan Moussa on behalf of</p>	
<p>Paul Turner</p>	