

Cabinet

10 January 2017



Report Title: **Collection Fund – Estimated Council Tax and Business Rates Surplus 2016/17**

Ward: **City Wide**

Strategic Director: **Anna Klonowski – Interim Strategic Director Resources**

Report Author: **Denise Murray - Service Director - Finance**

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Purpose of the report:

To determine the estimated Collection Fund surplus as at 31 March 2017

Recommendation for the Mayor's approval:

- 1. To note that an estimated surplus at 31 March 2017 on the Council Tax element of the Collection Fund of £4.604m be declared for 2016/17 and shared between this Council, the Police and Crime Commissioner for Avon and Somerset and the Avon Authority in proportion to their 2016/17 precepts on the Collection Fund**
- 2. To note that an estimated surplus at 31 March 2017 on the Non-Domestic Rates (NDR) element of the Collection Fund of £13.173m be declared for 2016/17 and shared between this Council, the Secretary of State and Avon Fire Authority in proportion to current year demands (Bristol 49%, Secretary of State 50%, Avon Fire and Rescue Service 1%)**



The proposal:

1. The Local Government Finance Act 1992(as amended) requires the Council to determine the estimated surplus or deficit on the Collection Fund in respect of Council Tax by 15 January. This will enable the precepting authorities (the Police and Crime Commissioner for Avon and Somerset and Avon Fire and Rescue) to take into account their share of any surplus before finalising their precepts for 2017/18.

Similarly, following the introduction of the Business Rates Retention Scheme from April 2013, in accordance with the Non-Domestic Rating (Rates Retention) Regulations 2013, the Council must determine the estimated surplus or deficit on the Collection Fund in respect of Business Rates prior to 31 January.

2. Income from Council Tax and Business Rates are fixed at the start of each financial year. Any variations from this are realised through the Collection Fund and are distributed in the following two financial years (based on estimated in the following year and actuals in the subsequent year.) The Council is required by statute to maintain a Collection Fund separate from the General Fund. The Collection Fund accounts independently for:

- Income into the Fund: the Fund is credited with the amount of receipts of Council Tax and (Non Domestic Rates) NDR it collects.
- Payments out of the Fund: in relation to Council Tax payments that are made to the Council and the two major precepting authorities (Avon and Somerset Police and Crime Commissioner and Avon Fire Authority). In relation to NDR payments that are made to the Council, the Secretary of State and the Avon Fire Authority.

2016/17 Estimated Surplus for Council Tax

3. The forecast of the Council Tax Collection Fund Balance for the year ending 31 March 2017 is an estimated surplus of £4.604. This is comprised of an in year (16/17) estimated surplus of £3.627m and an adjustment for the previous year of £0.977m.
4. The estimated surplus is due to a combination of factors, the most significant of which relate to a more buoyant than expected housing market and a reduction in the number of benefit recipients receiving council tax reductions.
5. Since calculating the Council Tax Base for 16/17 (in October 2015), 1,899 (1,541 Band D equivalents) new residential properties have come on to the market in Bristol. Growth of this magnitude was not anticipated at the time. Indications suggest the house market will remain buoyant during 2017/18. The Tax Base for 2017/18 allows for this continued growth.
6. In addition, the value of benefits awarded through the Council Tax Support Scheme has fallen from an estimated £39.910m to £37.000m. This is following a trend identified over the last few years. The table shows the split between the budgeted and likely actual cost of the scheme split between working age and pensioner claimants.

	Value of benefits claimed		
	Working Age	Pensioner	Total
	£m	£m	£m
Council Tax Base Estimate for 2016/17	25.544	14.368	39.912
Estimated Outturn 2016/17	24.168	12.832	37.000
Difference	1.376	1.536	2.912
Percentage Reduction	5.39%	10.69%	

7. Conversely, in line with a growing tax base, discounts and exemptions have also increased. Student exemptions, for example, are estimated to have increased by £1m over the original budgeted for 2016/17.
8. The estimated surplus is distributed to the major precepting authorities in proportion to the current year's demands and precepts on the Collection Fund. A detailed determination of the estimated Council Tax Collection Fund surplus for 2016/17 is shown in Appendix A and the allocation of the estimated surplus to each of the major precepting authorities is summarised below:

	£'000
Bristol City Council	3,945
Avon & Somerset Police and Crime Commissioner	477
Avon Fire Authority	182
	<u>4,604</u>

2016/17 Estimated Deficit for Non-Domestic Rates (NDR)

9. The introduction of the Business Rates Retention Scheme from April 2013 has increased uncertainty and volatility in Council funding. The estimation of the NDR base in January sets the amount of NDR to be distributed from the Collection Fund to preceptors in the following year. Any variances to the base during the year will be borne by the Collection Fund and distributed to preceptors in future years through the declaration of a surplus on the fund.
10. Any year-end estimated surplus/deficit is distributed to the Secretary of State and relevant precepting authorities in proportion to the current year demands and NDR payments on the Collection Fund. The percentages are fixed in accordance with The Non-Domestic Rating (Rates Retention) Regulations 2013. The forecast of the Non-Domestic Rates Collection Fund Balance for the year ending 31 March 2017 is an estimated surplus of £13.173m.
11. The business rates income which each billing authority collects is determined by reference to local rating lists maintained by the Valuation Office Agency. These lists are subject to variation between revaluations as a result of physical changes (either to the property or the locality) and appeals. The amount of business rates income collected by billing authorities therefore varies year on year. The major factors giving rise to changes include:

- Reductions to the rateable value of business properties arising from appeals. Once settled the appeal may be backdated resulting in the Council having to refund several years rates from a single year's income.
 - Changes in the rateable values of very large business properties such as power stations or hospitals can have a material effect.
 - Business properties switching between rating lists. Large business properties which cross boundaries, such as ports, appear in the list which contains the largest area. Changes in these properties could lead to large amounts of rateable value switching from one list to another. Similarly locally rated business with infrastructure covering large areas of the Country, for example telecommunication companies, may apply to switch to the national list.
- 12.** Although there is an estimated in-year loss of £5.342m reported for 2016/17, the estimated overall surplus for distribution in 2017/18 is principally due to the volatility around Business Rates appeals. Concerns around, potentially, very large appeals during 2015/16 resulted in the assumption that, as at the end of March 2016, there would need to be a significant increase in the provision for appeals. This was primarily attributable to a request for mandatory business rates relief submitted to the Council during 2015/16 on behalf of NHS Trusts. This is a national issue, for which the Council subsequently received advice which resulted in an alternative accounting treatment being applied at the end of the last financial year. The reversal of this sum back into the Collection Fund makes up the majority of the surplus as reported. The Council continues to monitor the situation.
- 13.** The Council is required to provide for potential appeals from its business rates income. Calculations for the provision are based upon the Valuation Office Agency 'Settled and Outstanding' proposals at end March reports. These reports show all appeals that have been lodged for each authority against the 2010 valuation listing including those which were agreed, dismissed, withdrawn or are still outstanding. This list is analysed into "types" of appeal. The average success rate and the percentage reduction in rateable value for those appeals which were successful is considered along with the potential for the backdating of any appeals decisions and the estimated annual cost was then adjusted by the ratings multiplier for the relevant year. Local intelligence is used alongside statistical modelling to inform decision making.
- 14.** As the amounts involved can be significant the Council takes a very prudent approach when calculating any likely impact of an appeal. Officers are satisfied as to the robustness of the estimated additional contribution to the appeals provision of £7.1m. The provision has been compared to that of both our nearest neighbours and similar sized authorities nationally. Bristol's appeals provision is very close to the national median, which would suggest the provision has been well calculated.
- 15.** The detailed determination of the estimated NDR Collection Fund surplus for 2016/17 is shown in Appendix B and the allocation of the estimated surplus to the Secretary of State and the relevant precepting authorities is summarised in the table below.

		£'000
Bristol City Council		6,455
Central Government		6,586
Avon Fire Authority		132
		<u>13,173</u>

Consultation and scrutiny input:

a. Internal consultation:

Revenues Manager, Revenues and Benefits – Citizen Services

b. External consultation:

Not Applicable

Other options considered:

None

Risk management / assessment:

There are a number of risks associated with estimating the amount of Council Tax and Business Rates collected during the year. These include;

- Reductions to the rateable value of business properties arising from appeals. Once settled the Council may have to settle several years business rates from a single year's income.
- Changes to the rateable values of very large business properties such as power stations or hospitals can have a material effect on business rate collection.
- Business Properties switching between rating lists. This can include large cross boundary properties switching from one list to another or joining the central list.
- Difficulty in estimating Council Tax discounts and exemptions, including the take-up of the Council Tax Support Scheme.

Public sector equality duties:

There are no proposals in this report which require either a statement as to the relevance of public sector equality duties or an Equalities Impact Assessment.

Eco impact assessment

Not applicable

Resource and legal implications:

Finance

a. Financial (revenue) implications:

The estimated surplus or deficit on the Collection Fund will carry forward to 2017/18 and will impact on the Council's budget position for that year.

Advice given by **Tony Whitlock (Finance Manager – Corporate Finance)**
Date **December 2016**

b. Financial (capital) implications:

Not applicable

Advice given by **Tony Whitlock (Finance Manager – Corporate Finance)**
Date **Not applicable**

Comments from the Corporate Capital Programme Board:

Not applicable

c. Legal implications:

The Local Government Finance Act 1992(as amended) requires the Council to determine the estimated surplus or deficit on the Collection Fund in respect of Council Tax prior to 15 January in order that the precepting authorities (the Police and Crime Commissioner for Avon and Somerset and Avon Fire and Rescue) to take into account their share of any surplus before finalising their precepts for 2017/18.

The Non-Domestic Rating (Rates Retention) Regulations 2013, the Council must determine the estimated surplus or deficit on the Collection Fund in respect of Business Rates prior to 31 January.

Advice given by **Shahzia Daya – Service Director Legal and Democratic Services**
Date **December 2016**

d. Land / property implications:

Not applicable

e. Human resources implications:

Not applicable

Appendices:

Appendix 1 – Estimated Council Tax Collection Fund Account 2016/17

Appendix 2 – Estimated Non-Domestic Rates Collection Fund Account 2016/17

Access to information (background papers):

Working papers held in Corporate Finance

Council Tax Collection Fund Adjustment Account

APPENDIX 1

2014/15		2015/16	2015/16	2016/17
Actual		Estimate as per	Actual	Estimate
£'000		Feb '16 Budget	£'000	December
		Report		2016
		£'000	£'000	£'000
	Income			
(195,553)	Council Tax Income	(201,210)	(202,668)	(215,032)
	Expenditure			
	Precepts			
160,076	Bristol City Council	169,026	169,026	178,403
19,709	Police	20,819	20,819	21,560
7,510	Fire	7,933	7,933	8,216
	Bad and Doubtful Debts			
1,837	Write Offs	1,600	2,081	3,226
189,132	Total Expenditure	199,378	199,859	211,405
(6,421)	(Surplus)/Deficit for the year	(1,832)	(2,809)	(3,627)
(5,617)	Accumulated (surplus)/deficit Bfwd	(7,266)	(7,266)	(5,406)
4,772	Distribution of prior years estimated surplus	4,669	4,669	4,429
(6,421)	(Surplus)/Deficit for the year	(1,832)	(2,809)	(3,627)
(7,266)		(4,429)	(5,406)	(4,604)
	Distribution of estimated Collection Fund surplus:			
(3,992)	Bristol City Council	(3,785)	(4,624)	(3,945)
(490)	Police	(466)	(570)	(477)
(187)	Fire	(178)	(212)	(182)
(4,669)		(4,429)	(5,406)	(4,604)
	Split of the 2016/17 estimated surplus			
	Balance brought forward from 2015/16			(977)
	Distribution of 2016/17 estimated surplus			(3,627)
				(4,604)

Business Rates Collection Fund Adjustment Account

APPENDIX 2

2014/15		2015/16	2015/16	2016/17
Actual		Estimate as per Feb '16 Budget Report	Actual	Estimate December 2016
£'000		£'000	£'000	£'000
	Income			
(209,982)	Business rates income	(210,000)	(210,975)	(224,748)
	Expenditure			
	Payments to Preceptors			
102,419	Central Government	104,028	103,677	108,137
101,368	Bristol City Council	100,645	101,604	105,974
2,054	Avon Fire	2,089	2,074	2,163
5,619	Disregarded amounts	5,713	0	4,094
723	Cost of collection allowance	721	721	722
	Bad and Doubtful debts			
1,862	Write offs	1,279	1,775	1,900
	Appeals losses and provision			
3,514	Increase/(decrease) in appeals provision	10,000	(2,916)	7,100
217,559	Total Expenditure	224,475	206,935	230,090
7,577	(Surplus)/Deficit for the year	14,475	(4,040)	5,342
	Accumulated (surplus)/deficit			
7,464	Accumulated (surplus)/deficit BFwd	9,476	9,476	(2,586)
(5,565)	Distribution of prior year estimated deficit	(8,022)	(8,022)	(15,929)
7,577	(Surplus)/deficit for the year	14,475	(4,040)	5,342
9,476		15,929	(2,586)	(13,173)
	Distribution of estimated collection fund surplus			
4,011	Central Government	7,965	(1,293)	(6,587)
3,931	Bristol City Council	7,805	(1,267)	(6,455)
80	Avon Fire Authroity	159	(26)	(132)
8,022		15,929	(2,586)	(13,173)