

## The proposal:

## APPENDIX A

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 or deficit 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 and Rescue ). In relation to NDR payments that are made to the Council, the Secretary of State, Avon Fire and Rescue Service and WECA.

### **2017/18 Estimated Deficit for Council Tax**

3. The forecast of the Council Tax Collection Fund Balance for the year ending 31 March 2018 is an estimated deficit of £37k. This is comprised of an in year (17/18) estimated deficit of £194k and an adjustment for the previous year surplus not distributed of £157k.
4. The estimated deficit, although very small, is due to a combination of factors. Although there remains buoyancy in the market there has also been a greater than anticipated increase in the number of exemptions and discounts, primarily in respect of student occupancy and single person discounts.
5. Since calculating the Council Tax Base for 17/18 (in October 2016), 2,122 Band D equivalent new residential properties have come on to the market in Bristol (to November 2017). As this is phased throughout the year the estimated increase in yield is £1.7m
6. In addition, the value of benefits awarded through the Council Tax Support Scheme has continued to fall from an estimate of £39.420m at the beginning of the year to an anticipated outturn position of £38.000m. 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. This results in a reduction of approximately £1.4m.

	Value of benefits claimed		
	Working Age	Pensioner	Total
	£m	£m	£m
Council Tax Base Estimate for 2017/18	25,623	13,794	39,417
Estimated Outturn 2017/18	25,023	12,977	38,000
Difference	600	817	1,417
Percentage Reduction	2.34%	5.92%	

7. The table below shows the number of pensioner and working age claimants recorded each year on the CTB return since October 2013 (Band D equivalents.)

	October 2013	October 2014	October 2015	October 2016	October 2017
Pensioners	11,831	11,663	11,019	10,054	9,594
Working Age	21,526	20,949	20,163	19,447	19,100
Total	33,347	32,612	31,182	29,501	28,694

8. The table above shows that the reduction in tax base due to pensioner claimants has fallen by 2,237 band D equivalents, or 18.91% since 2013, primarily because pensioner benefit income is rising more quickly than the cost of living (“triple lock”), while the number of working age claimants has reduced by 2,426 or 11.27% over the same period of time. This is in line with previously reported trends and therefore has been reflected in the calculation of the Tax Base.
9. Conversely, in line with a growing tax base, discounts and exemptions have also increased by over £3.2m since the original tax base estimate in October 2016. Student exemptions are estimated to have increased by £2m and single person occupancy discounts by £1.2m over the original budgeted for 2017/18. . The Revenues team are currently going through a tendering exercise for a fully managed council tax single person discount review to be undertaken later in 2017/18. This will help to ensure that the Council Tax Base going forward properly reflects entitlements to this discount.
10. The estimated deficit 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 deficit for 2017/18 is shown in Appendix A and the allocation of the estimated deficit to each of the major precepting authorities is summarised below:

	£'000
Bristol City Council	32
Avon and Somerset Police and Crime Commissioner	4
Avon Fire and Rescue	1
	<b>37</b>

## 2017/18 Estimated Deficit for Non-Domestic Rates (NDR)

11. The Government introduced the first 100% pilot schemes in 2017/18. Only authorities with signed devolution deals were eligible to participate in a pilot: the pilot for the WoE therefore includes Bath & North East Somerset Council (B&NES), Bristol City Council (BCC), South Gloucestershire Council (SGC) and the West of England Combined Authority (WECA). The 100% pilot gives the WoE the opportunity to retain 100% of any business rates growth over the next two to three years. It also gives the WoE the opportunity to help shape the national scheme.
12. In line with the Government's stated intention for the reforms to the Business Rate Retention system, authorities participating in a pilot will not have to pay a Levy on growth above their Retained Income target and will retain an increased Local Share of Non-Domestic Rating Income and sums due from Government paid via Section 31 grant, to compensate Local Authorities for the cost of changes made to the Business Rates system announced in the 2013, 2014 and 2015 Autumn Statements. Various grants, including Revenue Support Grant are 'rolled in' to the pilot, with the funding source being switched from grant to the Business Rates retained under the pilot. Through a system of tariffs and top-ups the creation of the pilot is fiscally neutral at baseline but authorities gain from retaining 100% of any above baseline growth.
13. As any surplus or deficit distribution through the collection fund covers two financial years, the distribution of any balances brought forward prior to 2017/18 will be distributed under the Business Rates Retention Scheme from 2013, so 49% Bristol City Council, 50% Secretary of State and 1% Avon Fire and Rescue. Any in-year estimated surplus/deficit is distributed in accordance with the 100% Business Rates Retention Pilot Agreement between the West of England authorities, so 94% Bristol City Council, 4% WECA and 1% Avon Fire and Rescue. The forecast of the Non-Domestic Rates Collection Fund Balance for the year ending 31 March 2018 is an estimated deficit of £13.976m.
14. The detailed determination of the estimated NDR Collection Fund deficit for 2017/18 is shown in Appendix B and the allocation of the estimated deficit to the Secretary of State and the relevant precepting authorities is summarised in the table below.

	£'000
Bristol City Council	6,721
Central Government	7,130
Avon Fire And Rescue	140
WECA	(15)
	13,976

This is split between current and prior years in the table below

Accumulated (surplus)/deficit brought forward	1,086
Distribution of prior years estimated surplus	13,173
Estimated in-year (surplus)/deficit	(283)
	13,976

15. 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.

- 16.** Although there is an estimated in-year surplus of £283k reported for 2017/18, the estimated overall deficit of £13.976m for distribution in 2018/19 is principally due to the volatility around Business Rates appeals.
- 17.** In March 2016, after declaration of the estimated collection fund position for 2016/17, the Council received notification of a successful appeal by a local Power Station. This resulted in a total refund of £3.9m to the power station and a further repayment to the Government of £6.3m of previously awarded transitional protection payments.
- 18.** Properties facing large rating increases are entitled to transitional relief to phase in these increases over a number of years. This relief is fully funded by the Government. In the event of a successful appeal resulting in a significant RV reduction, the transitional relief awarded is clawed back by netting off the refund. The relief is then paid back to the Government at the end of the financial year via the NNDR3 return.
- 19.** As at the 1 April 2016 the total provision for appeals stood at £14m. We estimated a further £7m would need adding to this at the end of 2016/17. During the year a total of £13m of appeals were settled and charged to the provision. This included the full effect of the power station. At the end of 2016/17 we estimated that we would require a provision of £22m to cover future liabilities. A £7m contribution had been budgeted, but the additional uplift was a call on the collection fund creating a significant deficit, impacting on the general fund in 2018/19.
- 20.** As these issues occurred in 2016/17, prior to the 100% business rates pilot, Central Government will fund 50% of the deficit. Going forward the risk to the Council of these large appeals is 94% of the loss.
- 21.** 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 2017 valuation listing along with remaining appeals outstanding on the 2010 list, 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.

As the amounts involved can be significant the Council takes a very prudent approach when calculating any likely impact of an appeal. As at the end of 2016/17 the appeals provision stood at £22.7m. Officers have determined that an estimated additional contribution to the provision of £9.3m will be required at the end of 2017/18. This is in line with Government recommendations and has been built into the estimates in this report. The provision is reviewed against valuation lists on a quarterly basis and is compared to that of both our nearest neighbours and similar sized authorities nationally.

- 20.** It should be noted that volatility in Appeals outcomes is an on-going risk of the business rates retention system which does introduce uncertainty in forecasting Collection Fund performance. However, the most significant risk that remains to the generation of gains under the pilot is the NHS/Foundation Trust applications for Charitable Relief. The estimated cost to BCC if successful, including backdated awards, is of the order of £34.4m. The overall exposure for the WoE authorities is £48.8m.

### **Consultation and scrutiny input:**

- a. Internal consultation:**  
Revenues Manager, Neighbourhoods
- 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. This is a significant financial risk as the Council is now required to fund 94% of any award. Furthermore the Government have yet to set out clear proposals as to how the appeals process will be dealt with going forward.
- 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.

- Effect of Brexit on the current buoyant property market in Bristol

**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/deficit on the Collection Fund for 2017/18 directly influences the resources available to the fund the revenue budget in 2018/19 due to be considered by Full Council on 21 February 2018.

**Advice given by**      **Tony Whitlock (Finance Manager – Corporate Finance)**  
**Date**                      **November 2017**

**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 or deficit before finalising their precepts for 2018/19.

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**                      **November 2017**

**d. Land / property implications:**

Not applicable

**e. Human resources implications:**

Not applicable

**Appendices:**

**Appendix 1 – Estimated Council Tax Collection Fund Account 2017/18**

**Appendix 2 – Estimated Non-Domestic Rates Collection Fund Account 2017/18**

**Access to information (background papers):**

Working papers held in Corporate Finance

**Council Tax Collection Fund Adjustment Account**

**APPENDIX A**

2015/16		2016/17	2016/17	2017/18
Actual		Estimate as per	Actual	Estimated
£'000		Feb '17 Budget	£'000	Outturn
		Report		£'000
		£'000		
	<b>Income</b>			
(202,668)	Council Tax Income	(215,032)	(214,094)	(226,521)
	<b>Expenditure</b>			
	<b>Precepts</b>			
169,026	Bristol City Council	178,403	178,403	192,162
20,819	Police	21,560	21,560	22,559
7,933	Fire	8,216	8,216	8,596
	<b>Bad and Doubtful Debts</b>			
2,081	Write Offs	3,224	2,132	3,398
<b>199,859</b>	<b>Total Expenditure</b>	<b>211,403</b>	<b>210,311</b>	<b>226,715</b>
<b>(2,809)</b>	<b>(Surplus)/Deficit for the year</b>	<b>(3,629)</b>	<b>(3,783)</b>	<b>194</b>
(7,266)	Accumulated (surplus)/deficit Bfwd	(5,406)	(5,409)	(4,761)
4,669	Distribution of prior years estimated surplus	4,429	4,431	4,604
(2,809)	(Surplus)/Deficit for the year	(3,627)	(3,783)	194
<b>(5,406)</b>		<b>(4,604)</b>	<b>(4,761)</b>	<b>37</b>
	<b>Distribution of estimated Collection Fund deficit:</b>			
(4,624)	Bristol City Council	(3,945)	(4,077)	32
(570)	Police	(477)	(495)	4
(212)	Fire	(182)	(189)	1
<b>(5,406)</b>		<b>(4,604)</b>	<b>(4,761)</b>	<b>37</b>

## Business Rates Collection Fund Adjustment Account

## APPENDIX B

2015/16		2016/17	2016/17	2017/18
Actual		Estimate as per Feb '16 Budget Report	Actual	Estimated Outturn
£'000		£'000	£'000	£'000
	<b>Income</b>			
(210,975)	Business rates income	(224,748)	(219,806)	(227,718)
	Transitional Surcharge		6,546	6,410
	<b>Expenditure</b>			
	<b>Payments to Preceptors</b>			
103,677	Central Government	108,137	108,137	0
101,604	Bristol City Council	105,974	105,974	192,396
2,074	Avon Fire	2,163	2,163	2,047
0	WECA			10,234
0	Disregarded amounts	4,094	5,348	4,432
721	Cost of collection allowance	722	722	716
	<b>Bad and Doubtful debts</b>			
1,775	Write offs	1,900	2,509	1,900
	<b>Appeals losses and provision</b>			
(2,916)	Increase/(decrease) in appeals provision	7,100	8,008	9,300
206,935	<b>Total Expenditure</b>	<b>230,090</b>	<b>232,861</b>	<b>221,025</b>
<b>(4,040)</b>	<b>(Surplus)/Deficit for the year</b>	<b>5,342</b>	<b>19,601</b>	<b>(283)</b>
	<b>Accumulated (surplus)/deficit</b>			
9,476	Accumulated (surplus)/deficit BFwd	(2,586)	(2,586)	1,086
(8,022)	Distribution of prior year estimated deficit	(15,929)	(15,929)	13,173
(4,040)	(Surplus)/deficit for the year	5,342	19,601	(283)
<b>(2,586)</b>		<b>(13,173)</b>	<b>1,086</b>	<b>13,976</b>
	<b>Distribution of estimated collection fund deficit</b>			
(1,293)	Central Government	(6,587)	543	7,130
(1,267)	Bristol City Council	(6,455)	532	6,721
(26)	Avon Fire and Rescue	(132)	11	140
0	WECA	0	0	(15)
<b>(2,586)</b>		<b>(13,173)</b>	<b>1,086</b>	<b>13,976</b>