

Policy

APPENDIX 1

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 2021/22.

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.

As the result of the Covid-19 pandemic, Bristol, in line with many other local authorities is predicting a significant deficit on its collection fund. Under normal circumstances and surplus or deficit reported in year is carried forward in the collection fund into the following financial year, when it then impacts on the general fund budget. However on 5 November 2020 the Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020 were laid before parliament and come into effect on 1 December.

These regulations, which are mandatory, amend the rules governing the apportionment of collection fund surpluses and deficits for council tax and non-domestic rates. The key element of the Bill is that collection fund deficits arising in 2020/21 can be spread over the following three years, rather than the usual period of one year. This only refers to the in-year deficit, net of Covid related grants. Any surpluses or deficits relating to previous financial years must be transferred to the general fund in 2021/22 in the normal way. A full analysis of the financial impact of this arrangement for both the Council and its preceptors follows in the report.

Consultation

2. Internal

Resources Scrutiny
Head of Revenues - Resources

3. External

Not applicable

Context

4. 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 will now be distributed in the following three financial years. 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, Avon Fire and Rescue Service and WECA.

2020/21 estimated deficit for Council Tax

5. For the year ending 31 March 2021 we are forecasting a deficit of £3.879m for the council tax element of the Collection Fund. After taking account of balances brought forward in the collection fund this is increased to a deficit of £5.574m. The deficit brought forward of £1.695m will be distributed in 2021/22 whereas the in-year deficit of £3.879m will be distributed over the next three years.

Council Tax Support Scheme

6. The economic impact of the pandemic has seen a significant impact on the number of working age citizens claiming benefits through the Council Tax Support Scheme. Historically we have seen a year on year drop in the number of both working age and pensioner claimants. Whereas this trend continues to apply for pensioners there has been a significant increase in applications from working age claimants. This reached a peak in August with 25,227 cases, (23,758 in August 2019) but has since started to reduce slightly.
7. Trend analysis further indicates that after an initial peak in April and May of this year, the number of employees on the furlough scheme has been steadily reducing. However, at this time, the longer term effects of any eventual end to the furlough scheme are difficult to quantify. Analysis of claimant trends shows an anticipated 5% increase in caseload of working age claimants during 2021/22. This would increase caseload to levels of early 2015 when UK unemployment was just over 5%. Current unemployment is at just under 5%.
8. The value of benefits awarded through the Council Tax Support Scheme for 2020/21 was originally estimated at £41.089m. It is anticipated that the actual cost of the scheme by the end of March will be £43.5m. Whereas pensioner claimants remain fairly static, the cost of the scheme in respect of working age claimants has increased by £2.9m (including £1.3m Hardship Fund)

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The table (i) below shows the total value of claims to date.

Table (i)

	Value of Claims		
	Working Age	Pensioners	Total
	£'000	£'000	£'000
01-Nov-19	27,592	13,497	41,089
01-Nov-20	30,488	13,012	43,500
Difference	2,896	(485)	2,411

The table (ii) below shows the actual number of claimants over the same period of time

	Caseload			
	01-Nov-19	01-Nov-20	Difference	Percentage Change
Working Age	23,548	25,041	1,493	6.34%
Pensioners	11,206	10,737	(469)	-4.19%
Total	34,754	35,778	1,024	

For the period 1 March to 1 August working age caseload increased by just over 9%. The on-going reduction in pensioner caseload is not fully reflected in a reduction in cost because of the effect of the annual increase in council tax.

Growth

9. When setting the amount of Council Tax collectable for the year ahead an estimate is made on new properties being built which will pay Council Tax during the year. The Council Tax Base report for 2020/21 estimated a further 1,715 band D equivalent dwellings would be completed, added to the rating list and chargeable for council tax during the year.
10. The restrictions put in place during the first three months of the year due to the pandemic resulted in a down turn in the building industry and therefore a delay in the valuation and banding of properties. Current estimates suggest the number of completed properties banded and chargeable in 2020/21 will be reduced by around 469 Band D equivalent dwellings, resulting in reduced income of approximately £968k

Losses on Collection

11. In estimating the provision for losses on collection the Council makes an estimate of debts which, after full recovery measures have been affected will be uncollectable. Traditionally annual losses on collection, after adjusting for the continued collection of prior years' arrears, have been estimated at 1.5%. However due to the effects of the pandemic these have been reassessed at 2.09%. This results in estimated additional losses in year of £1.6m.

Composition of Council Tax Deficit 2020/21

12. The table below details the major elements making up the Council Tax Deficit in 2020/21.

	£'000
Net Increase in CTR (net of Hardship Fund)	1,123
Additional in-year loss on collection	1,600
Reduction in completed dwellings	968
Other Discounts/Reliefs	188
2020/21 In Year Deficit	3,879

Distribution of the Council Tax Deficit

13. 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 2020/21 is shown in Appendix A. However the allocation of the estimated deficit to each of the major precepting authorities, over the next three years is summarised below:

	2021/22	2022/23	2023/24	Total
	£m	£m	£m	£m
Council Tax 20/21 losses	1,293	1,293	1,293	3,879
(Surplus)/Deficit carried forward	1,695			1,695
Total Deficit	2,988	1,293	1,293	5,574
Apportionment of Deficit				
Bristol City Council	2,549	1,103	1,103	4,755
Police and Crime Commissioner for Avon & Somerset	330	143	143	616
Avon Fire Authority	109	47	47	203
	2,988	1,293	1,293	5,574

2020/21 Estimated Deficit for Non-Domestic Rates (NDR)

14. Since 2017/18 Bristol has been piloting 100% retention of business rates. Only authorities with signed devolution deals were eligible to participate in a pilot: the pilot for the West of England (WoE) therefore includes Bath & North East

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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. This arrangement was due to end in 2020/21 with changes in business rates retention and the rollout of a fair funding review by Government. Under the reforms, the business rates system was due to be “reset” and funds retained by councils in areas with high business rates growth redistributed more in line with needs with a new baseline set for funding allocation based on up-to-date needs and resources. However amid the Pandemic the Government announced a further delay to the 2021 fair funding review.

15. There is much uncertainty in the detail of how the rates retention system will work beyond the current pilot period. In particular, it is unclear what additional responsibilities will come with funding and how the appeals process will work.
16. During the pandemic we have seen a significant increase in business rates reliefs. Bristol received an additional £71m of relief grant from the Government at the beginning of the pandemic. However the actual number is forecast to be much larger at around £90m by the end of the year. Assuming all rates relief and tax-breaks for businesses are funded by Central Government we estimate a reduction of £8.883m of business rate income as a result of unavoidable business insolvencies and the reduction in the debt collection rate.
17. Any 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.
18. The detailed determination of the estimated NDR Collection Fund deficit for 2020/21 is shown in Appendix B and the allocation of the estimated deficit to the relevant precepting authorities over the next three years is summarised in the table below.

	2021/22	2022/23	2023/24	Total
	£m	£m	£m	£m
Business Rates				
20/21 losses	2,961	2,961	2,961	8,883
(Surplus)/Deficit carried forward	(314)			(314)
Total Deficit	2,647	2,961	2,961	8,569
Apportionment of Deficit				
Bristol City Council	2,488	2,783	2,783	8,055
West of England				
Combined Authority	132	148	148	428
Avon Fire Authority	26	30	30	86
	2,647	2,961	2,961	8,569

- 19.** 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. Under the business rates Pilot the risk to the Council of these large appeals is 94% of the loss.
 - 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.
- 20.** 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.
- 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.
- 22.** As at the end of 2019/20 the appeals provision stood at £27.5m. As this is a significant amount this provision is regularly reviewed against valuation lists on a quarterly basis and is compared to that of both our nearest neighbours and

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similar sized authorities nationally. The Government recommends that 4.7% of net rates should be set aside in the provision to cover potential, and yet unknown, appeals relating to the 2017 list. Consequently £11m has been built into the original estimate for 2020/21.

- 23.** At the end of 2019/20 we were able to significantly reduce the amount required to top up the provision. This was down to two primary reasons. Firstly, the number of appeals against the 2010 list, has as expected, seen a significant decline, Secondly the data provided by the Valuation Office has significantly improved enabling us to identify around £10m already in the provision which was no longer required. This meant only a further £575k was required to bring the level of the provision back to that deemed sufficient to cover for any appeals against the 2017 list.

Bristol's share of the total deficit on the collection Fund for 2020/21

- 24.** Bristol City Council's share of the total deficit on the collection fund, phased over the next three years is shown below.

	2021/22	2022/23	2023/24	Total
	£m	£m	£m	£m
Council Tax	2,549	1,103	1,103	4,755
Business Rates	2,488	2,783	2,783	8,054
Total	5,037	3,886	3,886	12,809

Other Options Considered

- 25.** Not applicable

Risk 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

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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 property market in Bristol
- Impact of Covid-19 on employment and businesses on collection rates and Council Tax Reduction 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

Legal and Resource Implications

Legal

This report enables the Council to comply with the requirements of the Local Government Finance Act 1992(as amended), to determine the estimated surplus or deficit on the Collection Fund in respect of Council Tax prior to 15 January. This is so that the precepting authorities (the Police and Crime Commissioner for Avon and Somerset and Avon Fire and Rescue) can take into account their share of any surplus before finalising their precepts for 2021/22.

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

(Legal advice provided by Husinara Jones, Team Leader/Solicitor)

Financial

(a) Revenue

The total estimated deficit on the Collection Fund for 2020/21, including any brought forward balances is £12,809m. The Bristol share of this deficit charged to the general fund in 2021/22 £5.037m. This impacts on the resources available to the fund the revenue budget in 2021/22 due to be considered by Full Council on 23 February 2021

(b) Capital

None

(Financial advice provided by Tony Whitlock – Finance Business Partner)

Land

Not applicable

Personnel

Not applicable

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Appendices:

Appendix I – Estimated Council Tax Collection Fund Account 2020/21

Appendix II – Estimated Non-Domestic Rates Collection Fund Account 2020/21

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Working papers held in Corporate Finance

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Council Tax Collection Fund Adjustment Account

APPENDIX I

	ESTIMATED COUNCIL TAX COLLECTION FUND ACCOUNT			
2018/19		2019/20	2019/20	2020/21
Actual		Estimate as per Dec 19 Surplus/Deficit Report	Actual	Estimated Outturn
£'000		£'000	£'000	£'000
	Income			
(240,849)	Council Tax Income	(255,663)	(255,560)	(265,414)
	Additional S31 Grant (Hardship Fund)			(1,220)
	Expenditure			
	Precepts			
204,539	Bristol City Council	214,730	214,730	226,055
24,380	Police	27,662	27,662	29,289
8,974	Fire	9,510	9,510	9,635
	Bad and Doubtful Debts			
2,573	Write Offs	3,761	5,347	5,534
240,466	Total Expenditure	255,663	257,249	270,513
(383)	(Surplus)/Deficit for the year	0	1,689	3,879
(1,772)	Accumulated (surplus)/deficit Bfwd	(2,192)	(2,192)	1,695
(37)	Distribution of prior years estimated surplus	2,149	2,198	43
(383)	(Surplus)/Deficit for the year	0	1,689	3,879
(2,192)		(43)	1,695	5,617
	Distribution of estimated Collection Fund deficit:			
(1,886)	Bristol City Council	(37)	1,459	4,792
(221)	Police	(4)	171	621
(84)	Fire	(2)	65	204
(2,192)		(43)	1,695	5,617

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Business Rates Collection Fund Adjustment Account

APPENDIX II

2017/18 Actual	2018/19 Actual		2019/20 Estimate as per surplus/deficit report Dec 19	2019/20 Actual	2020/21 Estimated Outturn
£'000	£'000		£'000	£'000	£'000
		Income			
(219,119)	(219,626)	Business rates income	(231,528)	(227,650)	(135,267)
6,050	2,355	Transitional Surcharge	2,228	2,879	2,601
		Additional S31 Grant			(89,501)
		Expenditure			
		Payments to Preceptors			
192,396	197,400	Bristol City Council	197,330	197,330	197,854
2,047	2,100	Avon Fire	2,099	2,111	10,524
10,234	10,500	WECA	10,496	10,547	2,105
3,259	4,572	Disregarded amounts	6,964	8,297	4,636
716	714	Cost of collection allowance	714	704	704
		Bad and Doubtful debts			
1,342	123	Write offs	2,413	2,589	4,131
		Appeals losses and provision			
2,541	3,401	Increase/(decrease) in appeals provision	9,714	575	11,096
212,535	218,810	Total Expenditure	229,730	222,153	231,050
(534)	1,539	(Surplus)/Deficit for the year	430	(2,618)	8,883
		Accumulated (surplus)/deficit			
1,086	13,725	Accumulated (surplus)/deficit BFwd	1,288	1,288	(314)
13,173	(13,976)	Distribution of prior year estimated (surplus)/deficit Prior Year Adjustments	62	1,016	(1,780)
(534)	1,539	(Surplus)/deficit for the year	430	(2,618)	8,883
13,725	1,288		1,780	(314)	6,789
		Distribution of estimated collection fund deficit			
12,902	1,211	Bristol City Council	1,673	(295)	6,382
686	64	WECA	89	(16)	339
137	13	Avon Fire and Rescue	18	(3)	68
13,725	1,288		1,780	(314)	6,789