

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 factor in their share of any surplus or deficit before finalising their precepts for 2022/23.

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 a result of the ongoing impact of the Covid-19 pandemic, Bristol, in line with many other local authorities is predicting a deficit on its collection fund for the second year. This has been partially alleviated by a surplus brought forward from the previous financial year, due mainly to fluctuations in the appeals provision.

Last year the government announced that the repayment of collection fund deficits arising in 2020/21 could be spread over 3 years rather than the usual period of payment in full in the subsequent year. Regulation was passed in Parliament to implement the collection fund deficit phasing which came into force on 1 December 2020. In addition, a local tax income guarantee scheme was introduced that compensated councils for 75% of losses once deemed irrecoverable in council tax and business rates income in respect of 2020/21. Due to the methodology for calculating irrecoverable losses this only resulted in £1.4 million compensation in 2021/22 for the Council's 2020/21 losses.

No new funding for Local Government Covid related pressures were announced in the government's Spending Review published in October 2021. There has been no announcement yet as to whether deficit phasing will be allowed again. Assuming there is no continuation of the support mechanisms outlined above then the deficit on the collection fund as set out in this report will impact on the budget for 2022/23. Any decision to offer further assistance with regards the spreading of collection fund deficits may be made in the local government finance settlement, due to be announced in December.

A full analysis of the financial impact of this arrangement for both the Council and its preceptors follows in the report.

Consultation

2. Internal

Budget Task and Finish Group
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.

2021/22 estimated deficit for Council Tax

5. For the year ending 31 March 2022 we are forecasting a deficit of £10.016m for the council tax element of the Collection Fund. After taking account of balances brought forward in the collection fund this is reduced to a deficit of £9.763m. Under current arrangements this deficit will be distributed in 2022/23.

Composition of Council Tax Deficit 2021/22

6. The table below details the major elements making up the Council Tax Deficit in 2021/22.

	£m
Reduction in the estimated cost of Council Tax Support	(2.0)
Reduction in the number of chargeable dwellings	0.3
Increase in discounts and reliefs	0.5
Increase in the allowance for impairment of debts (net of budgeted allowance of £4.2m)	11.2
Total	10.0

Details are set out below.

Council Tax Support Scheme

7. Bristol is one of the few local authorities retaining a fully funded Local Council Tax Reduction scheme (CTRS). Prior to the pandemic, there had been year on year reductions in both the numbers of working age and pensioner claimants to the

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CTRS. During the pandemic, we saw a significant increase in CTRS claimants and caseload, particularly amongst working age. Since then, pensioner numbers have started to reduce while working age numbers have continued to rise but at a much slower rate than during the height of the Pandemic.

Table 1 below shows the number of pensioner and working age claimants for the last five years, while table 2 shows the value (net of the Hardship Fund where applicable) for each of the last three years.

Table 1

	Oct-17	Oct-18	Oct-19	Oct-20	Oct-21
Working Age	24,420	24,026	23,506	25,114	25,211
Pensioners	12,540	11,844	11,239	10,755	10,436
Total	36,960	35,870	34,745	35,869	35,647

Table 2

	Value of Claims			
	Working Age	Pensioners	Hardship Fund	Total
	£'000	£'000	£'000	£'000
01-Oct-19	26,564	12,996		39,560
01-Oct-20	30,489	13,012	(1,289)	42,212
01-Oct-21	31,167	13,252	(730)	43,689

8. The value of benefits awarded through the Council Tax Support Scheme for 2021/22 was originally estimated at £46.6m. It is anticipated that the actual cost of the scheme by the end of March will be £44.6m. The original estimate, based on August 2020 figures, assumed a further 5% increase in working age claimants going into 2021/22. This would have taken the number of working age claimants to 26,488. This increase did not materialise, and instead began to stabilise. This accounts for the £2m saving in the cost of the scheme.
9. The government's Spending Review, announced in October, included change to the Universal Credit taper from December 2021. This will result in some claimants receiving more Universal Credit, which will, in turn, reduce the amount of CTRS claimed.

Growth

10. 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 2021/22 estimated a further 2,045 band D equivalent dwellings would be completed, added to the rating list and chargeable for council tax during the year. Current estimates would suggest this number will be 1888, a reduction of 157 band D equivalents. Continuing issues with building supplies will have contributed to this slower than expected growth.

Discounts and Exemptions

11. There is a very small increase of around £500k in discounts and exemptions forecast for year-end. These are mainly due to the fluidity of Bristol's student population and a very small increase in the care home population and probate cases.

Losses on Collection and contribution to the provision for the impairment of debts

12. As at the end of October 2021, arrears, excluding current year, stood at £20.9m. Of this £10.2m relates to 2020/21. Overall collection for 2021/22 is likely to show a shortfall of £20.8m against the annual billing debit, potentially increasing arrears at year-end to £41.7m. Pre the Pandemic, the Council would normally anticipate collecting around £4m towards previous years arrears. This year, to date, around £500k has been collected. In the light of this officers have reassessed the impairment provision for doubtful debts with a view to making a "one off" increase to the provision, over and above that normally anticipated.
13. Pre-pandemic, collection would normally keep pace with, and slightly exceed, the annual increase in council tax, year on year, however collection in both 2020-21 and 2021-22 has slipped whilst recovery action was paused to support households manage the impact of the pandemic. As recovery action begins officers will focus on supporting citizens to maintain their ongoing payments, but are confident arrears will also start to reduce, with an on-going improved position continuing throughout 2022/23. However, it must be recognised, over time this debt will become more difficult to collect, although clearly the Council will seek to recover as much of the arrears as it is possible to do.
14. To ensure the provision is sufficient to provide for year-end arrears officers have increased the annual percentage of debt provided for by five percent. So, for example, the Council might expect, over time, to recover 53 percent of current year arrears. This has been reduced to 48 percent. A similar reduction has been applied to arrears balances for 2019/20 and 2020/21. All balances over three years old are fully provided for. This increase is to mitigate the uncertainties arising as a result of the covid debt collection pause and will be reassessed at year

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end based on initial recovery experience. All impairment provisions are the subject of scrutiny by the Council's External Auditor at year end.

15. The total requirement for the provision is estimated at £28.1m. As at the 1 April 2021 the provision stood at £13.4m. After a small adjustment for write offs of £700k, an increase of £15.4m is required. (Note, the original tax base allowed for £4.2m) This additional sum reduces net receipts and contributes to the in-year deficit for the council tax element of the collection fund.

16. Only after full investigations have been completed will debt be recommended for write-off if deemed uncollectable in the longer term. Debt written off during 2021/22 is largely due to citizens who have moved where we are unable to trace them.

17. Calculation of the council tax debt impairment provision

Year	Arrears	Percentage Provided	Provision
	£'000		£'000
To 13/14	250	100%	250
2014/15	213	100%	213
2015/16	429	100%	429
2016/17	835	100%	835
2017/18	1,415	100%	1,415
2018/19	2,462	100%	2,462
2019/20	5,057	84%	4,248
2020/21	10,232	73%	7,469
2021/22	20,800	52%	10,816
Total	41,691		28,136
Provision opening balance 1.4.21			13,392
Written off			(704)
Total remaining in provision			12,688
Required			<u>28,136</u>
Additional provision			15,448
Budgeted Provision for 2021/22			(4,200)
Additional required over budget 31.3.22			<u>11,248</u>

Distribution of the Council Tax Deficit

18. 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 2021/22 is shown in Appendix A. Against the deficit attributable to the Council we have applied £1.5m of Covid related Council Tax Support Grant. The allocation of

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the estimated deficit to each of the major precepting authorities, is summarised below:

	2021/22 £m
Council Tax	
21/22 losses	10,016
(Surplus)/Deficit carried forward	(253)
Total Deficit	9,763
Apportionment of Deficit	
Bristol City Council	8,372
Police and Crime Commissioner for Avon & Somerset	1,056
Avon Fire Authority	335
	9,763

Adjustments to BCC Share of the Deficit

	£m
21/22 losses	8,546
(Surplus)/Deficit carried forward	(216)
S13A Care Leavers(BCC only)	42
	8,372
Allocation of Local Council Tax Support Grant	(1,500)
Total	6,872

Note: The council gives discretionary relief from council tax to our care leavers until they are 25 years old, giving these young people invaluable financial support as they begin their independent adult lives. The cost of this is born wholly by the council.

2021/22 Estimated Deficit for Non-Domestic Rates (NDR)

19. 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 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. This has now been further delayed, with no reference made in the government’s Spending Review published in October 2021. As such there is much uncertainty in the detail of how the rates retention system will work beyond the current pilot period. We are expecting more detail to be announced in the local government finance settlement, announcement in December.

20. During 2021/22 the government have continued to make available a range of reliefs, including those to the retail, leisure, and hospitality sector. By the end of this financial year, it is estimated the Council will have received around £39m in additional grant relief. Assuming all rates relief for businesses are funded by Central Government we estimate an in-year reduction of £13.3m of business rate income primarily because of increased appeals, and a reduction in the collection rate and associated impact on providing for this and previous years uncollected business rates.

Composition of the Business Rates Deficit 2021/22

21. The table below details the major elements making up the business rates deficit in 2021/22.

	£m
Additional Empty Property Relief awarded	2.0
Increase in the allowance for impairment of debts (net of budgeted allowance of £4.1m)	6.0
Increase to the appeals provision	5.3
Total	13.3

22. 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.
23. The detailed determination of the estimated NDR Collection Fund deficit for 2021/22 is shown in Appendix B and the allocation of the estimated deficit to the relevant precepting authorities is summarised in the table below.

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	2021/22 £m
Business Rates	
21/22 losses	13,312
(Surplus)/Deficit carried forward	(6,115)
Spreading Adjustment	(2,961)
Total Deficit	4,236
Apportionment of Deficit	
Bristol City Council	3,982
West of England Combined Authority	212
Avon Fire Authority	42
	4,236

24. 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 because 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 main factors affecting this year's business rates income are outlined below.

Additional Empty Property Relief

25. Empty properties are exempt from business rates for three months, and industrial buildings for six months. The original estimate for 2021/22 assumed a cost of £9.6m. At the end of September, the cost was £10.6m, so we anticipate a further £1m by the end of the financial year. The outturn position for 2020/21 was £9.7m. The Revenue's team are not necessarily informed of the reason a building has become unoccupied, and it may not be because of businesses becoming insolvent. However, a potential increased cost of £2m on 2020/21 would suggest the Pandemic has had an impact.

Losses on Collection and contribution to the provision for the impairment of debts

26. The ability of businesses to recover from the pandemic is still uncertain. The relief for retail, hospitality and leisure sectors has now reduced and the impact on collection rates will become clearer in the coming months. Many businesses have missed instalments or opted to spread payments into February and March. Officers are predicting an in-year collection rate of 92.5%. This compares with an actual collection rate of 92.2% for 2020/21 and 98% pre the Pandemic.

- 27.** As at the end of October 2021, arrears, excluding current year, stood at £15.1m. Of this £9.8m relates to 2020/21. Overall collection for 2021/22 is likely to show a shortfall of £14.5m against the annual billing debit, potentially increasing arrears at year-end to £29.6m.
- 28.** Pre the Pandemic, the Council would normally anticipate an annual net reduction in arrears of around £3m. This year, to date, net arrears have reduced by around £500k. Similarly, as with council tax, officers have reassessed the impairment provision for doubtful debts with a view to making a “one off” increase to the provision, over and above that normally anticipated.
- 29.** To ensure the provision is sufficient to provide for year-end arrears officers have again deemed it reasonable to the annual percentage of debt provided for by five percent. So, for example, the Council might expect, over time, to recover 50 percent of current year arrears. This has been reduced to 45 percent. A similar reduction has been applied to arrears balances for 2019/20 and 2020/21. All balances over three years old are fully provided for.
- 30.** The total requirement for the provision as at 31 March 2022 is estimated at £18.8m. As at the 1 April 2021 the provision stood at £8.7m. After taking into account a small adjustment for write offs of £100k, an increase of £10.2m is required (£6m after the budgeted contribution of £4.2m). This additional sum reduces net receipts and contributes to the in-year deficit for the business rates element of the collection fund.

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Year	Arrears	Percentage Provided	Provision
	£'000		£'000
To 2015/16	177	100%	177
2016/17	143	100%	143
2017/18	418	100%	418
2018/19	1,140	100%	1,140
2019/20	3,404	89%	3,030
2020/21	9,822	60%	5,893
2021/22	14,500	55%	7,975
Total	29,605		18,777
Provision opening balance 1.4.21			8,724
Written off			(100)
Total remaining in provision			8,624
Required			18,777
Additional provision			10,152
Budgeted Provision for 2021/22			(4,200)
Additional required over budget 31.3.22			5,952

Business Rates Appeals

31. 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 the very small number of 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.
32. As at the end of 2020/21 the appeals provision stood at £25.3m. As this is a significant amount this 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. 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. This amounts to an annual sum of £11m. However, it should be noted that the appeals position remains extremely volatile with potentially large fluctuations occurring from one year to the next.
33. To illustrate the point, at the end of 2020/21 we were able to reduce the provision by just over £2m. The primary reasons for this were that most of the appeals against the 2010 list were now settled and the actual claims against the provision

for appeals settled against the 2017 list were generally lower than originally estimated.

34. However, during the first six months of 2021/22 there have been a substantial number of successful appeals, resulting in significant reductions in rateable value. Although the biggest single loss is in relation to a hospital complex, the majority are in relation to office blocks, and although City wide, there has been a notable reduction in rateable values for offices within the Temple Quarter Enterprise Zone (TQEZ). This has a wider impact, than other areas of the City, in that it impacts on the City region Deal or business rates pool. Fifty percent of the growth in the TQEZ is paid into the pool, which in turn is used to fund capital projects across the region. A reduction in income paid into the pool will impact on the funds available for these projects.
35. Appeals can be backdated to the beginning of the current rating list, April 2017. The value of each refund varies considerably; the lowest so far this year is £10, and the highest is £1.8m. We often see a higher number of appeals being submitted and decided toward the end of the current rating list, so it is likely that we will see more appeals coming through both in the remainder of this year and through the next. During the first six months of this financial year £13.5m has been lost in terms of gross rates as a result of successful appeals. Of this almost £6.5m is within the TQEZ. The on-going reduction in rateable value in terms of gross rates is £2.4m, of which the TQEZ totals £908k. This will impact on the gross rateable value for 2022/23.
36. The full £13.5m can be charged to the appeals provision. Revenue colleagues have estimated a further £3m could be lost to successful appeals by the end of the year. The impact on the provision is shown in the table below.
37. Charging to the provision protects the “net rates” position including growth into the business rates pool. However, any replenishment to the provision needs to be charged to the income received from business rates and therefore contributes to the overall in-year deficit.

Appeals Provision	£'000
Opening balance 1 April 2021	25.3
Budgeted increase to the provision	11.1
Appeals to 1 October 2021	(13.5)
Additional to 31 March 2022	(3.0)
Balance remaining 31 March 2022	19.9
Top-up required	5.3
Balance as at 31 March 2022	25.2

Bristol's share of the total deficit on the collection Fund for 2021/22

38. Bristol City Council's share of the total deficit on the collection fund, charged in 2022/23 is as follows

	2021/22 £m
Council Tax	6,872
Business Rates	3,982
Total	10,854

Other Options Considered

39. Not applicable

Risk Assessment

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

- The volatility of business rates 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 property market in Bristol
- The on-going 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 2022/23.

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 Nancy Rollason – Head of Legal Services)

Financial

(a) Revenue

The total estimated deficit on the Collection Fund for 2020/21, including any brought forward balances is £13.999m. The Bristol share of this deficit, net of adjustments and grant, charged to the general fund in 2022/23 is £10.854m. This is line with collection fund assumptions in the current MTFP.

(b) Capital

None

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

Land

Not applicable

Personnel

Not applicable

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

Draft Collection Fund Surplus/Deficit Report

Council Tax Collection Fund Adjustment Account

APPENDIX I

2018/19 Actual	2019/20 Actual		2020/21 Estimate as per Surplus/Deficit Report	2020/21 Actual	2021/22 Estimated Outturn	
£'000	£'000		£'000	£'000	£'000	
		Income				
(240,849)	(255,560)	Council Tax Income (in year liability)	(265,414)	(264,793)	(281,285)	
		Additional S31 Grant (Hardship Fund)	(1,220)	(1,563)	(985)	
		Expenditure				
		Precepts				
204,539	214,730	Bristol City Council	226,055	226,055	236,197	
24,380	27,662	Police	29,289	29,289	30,862	
8,974	9,510	Fire	9,635	9,635	9,779	
		Bad and Doubtful Debts				
2,573	5,347	Losses on Collection	5,534	4,960	15,448	
240,466	257,249	Total Expenditure	270,513	269,939	292,286	
(383)	1,689	(Surplus)/Deficit for the year	3,879	3,583	10,016	
(1,772)	(2,192)	Accumulated (surplus)/deficit Bfwd (Actual)	1,695	1,695	5,321	
(37)	2,198	Distribution of prior years estimated surplus	43	43	(5,574)	
(383)	1,689	(Surplus)/Deficit for the year	3,879	3,583	10,016	
(2,192)	1,695		5,617	5,321	9,763	
		Allocation of estimated surplus/deficit	BCC	Police	Avon Fire	Total
		In year(surplus)/deficit	8,546	1,117	354	10,016
		Spreading adjustment	0	0	0	0
		Residual prior-year (surplus)/deficit	(216)	(28)	(9)	(253)
		Subtotal	8,330	1,088	345	9,763
		Local Council Tax Support Grant - BCC only	(1,500)			(1,500)
		S13A Care Leavers - BCC only	42	(32)	(10)	(0)
		Estimated (surplus)/deficit for 22/23 budget	6,872	1,056	335	8,263

