

Report to Cabinet



Date of Meeting	29 th May 2018
Portfolio	Cabinet Member for Finance
Report Author	Stuart Smith
Public/Private Document	For publication

Collection Fund Outturn Report 2017/18

Executive Summary

1. To update Cabinet and Corporate Overview and Scrutiny Committee on the Council's Collection Fund outturn position for 2017/18.

The Collection Fund Position for 2017/18 is a surplus of £4.340m, comprising:

- £2.026m surplus relating to Business Rates;
- £2.314m surplus relating to Council Tax.

The Council's share of the 2017/18 Collection Fund outturn surplus is £4.024m.

Recommendation

2. Consider the 2017/18 Collection Fund outturn position.

Reason for Recommendation

3. The Collection Fund outturn report for 2017/18 is presented to Cabinet for noting as part of the budget monitoring process.

Key Points for Consideration

4.1 Introduction

- 4.1.1 The Collection Fund Account reflects the statutory requirement for the Council to maintain a separate fund in relation to the billing and collection of Business Rates and Council Tax.
- 4.1.2 This report focuses on the Collection Fund outturn position for 2017/18 covering:
 - the summary position, and the Council's share of the Collection Fund position;
 - the Business Rates income position compared to budget, an update relating to rateable value appeals, 2017/18 collection performance and current level of

arrears;

- the Council Tax income position compared to budget, detail of the Local Council Tax Support Scheme, 2017/18 collection performance and current level of arrears.

4.2 Summary

4.2.1 The Collection Fund Position for 2017/18 is a surplus of £4.340m, comprising:

- £2.026m surplus relating to Business Rates;
- £2.314m surplus relating to Council Tax.

4.2.2 Table 1 shows the Collection Fund position as at 31st March 2018, and the allocation of the closing surplus between precepting authorities.

Table 1 - Collection Fund surplus 2017/18

	Business Rates		Council Tax		Total
	%	£'000	%	£'000	£'000
Collection Fund surplus at 31/03/18		(2,026)		(2,314)	(4,340)
<u>Preceptors' Share of 2017/18 surplus</u>					
Rochdale BC	99	(2,028)	86	(1,996)	(4,024)
Greater Manchester Combined Authority – GM Police	-	-	10	(229)	(229)
Greater Manchester Combined Authority – GM Fire and Rescue Service	1	(20)	4	(89)	(109)
Central Government	-	22	-	-	22
Total surplus	100	(2,026)	100	(2,314)	(4,340)

4.2.3 The Council's share of the Collection Fund surplus as at 31st March 2018 is £4.024m. This is £1.264m higher than the forecast surplus reported to March 2018 Cabinet.

4.2.4 The Local Government Finance Settlement 2017/18 included the introduction of the 100% retention of Business Rates for various regional pilot authorities, including Greater Manchester. The pilot authorities will each retain 100% of locally-raised Business Rates, of which 99% is retained by the local authority, and 1% retained by Greater Manchester Combined Authority in respect of GM Fire and Rescue Service.

4.2.5 The Council continues to be part of a Business Rates pool, which for 2017/18 includes the 10 Greater Manchester local authorities, Cheshire East Council and Cheshire West & Chester Council. Any sum gained, after applying the agreed allocation to levy authorities, will be retained by the pool for investment within Greater Manchester and other non-Greater Manchester Authorities involved in the pool.

4.2.6 The Council continues to be involved in a pilot scheme for the full retention of Business Rates growth for 2017/18.

4.2.7 The 2017/18 benefit from the 100% Business Rates Retention scheme pilot, and the 2017/18 growth pilot have been calculated to be £4.784m, based on an agreed formula within Greater Manchester. 50% of the benefit is to be paid to GMCA, and the remaining 50% will be retained by the Council, and used to fund General Fund services.

4.3 Business Rates

4.3.1 Net Income Raised

4.3.1.1 The 2017/18 outturn position relating to Business Rates is a surplus of £2.026m.

4.3.1.2 The Government's 2017 Spring Budget included additional initiatives, in the form of discretionary reliefs, to support businesses that have been significantly affected by the 2017 Business Rates revaluation. Approximately £0.357m of relief has been given. This was not known about when the 2017/18 Budget was set, and therefore impacts on the outturn position forecast. The Council will receive Section 31 grant to compensate for its share of the loss of income, which has been credited to the General Fund in 2017/18.

4.3.1.3 Table 2 provides detail of the 2017/18 outturn Business Rates position.

Table 2 – 2017/18 Business Rates income

Description	Budget	2017/18 outturn	(Surplus)/ Deficit	(Surplus)/Deficit movement from update at January 2018 Cabinet
	£'000	£'000	£'000	£'000
Gross income	(77,592)	(78,081)	(489)	619
Net Small Business Rate relief	5,969	6,612	643	212
Mandatory Charitable relief	4,179	3,913	(266)	(187)
Discretionary relief	911	1,127	216	(40)
Empties & Part Occupied relief	5,150	3,429	(1,721)	(1,721)
Net Income	(61,383)	(63,000)	(1,617)	(1,117)
Less:				
Charge re bad debt provision	1,048	733	(315)	(315)
Allowance for cost of collection	281	281	-	-
Provision for rateable value revaluations	3,578	3,445	(133)	(133)
Renewable energy schemes	496	491	(5)	(5)
Net yield	(55,980)	(58,050)	(2,070)	(1,570)
2017/18 payments to preceptors/billing authority	55,980	55,980	-	-
In year surplus	-	(2,070)	(2,070)	(1,570)
(Surplus)/deficit brought forward from 2016/17	57	101	44	-
Payments from preceptors/billing authority re 2016/17 deficit per the 2017/18 Budget process	(57)	(57)	-	-
Surplus as at 31/3/18	-	(2,026)	(2,026)	(1,570)

4.3.1.4 The main areas of overall variance to the budget are:

Explanation of variance	Variation to budget £'000
Increased Business Rates income, net of discounts. This is due to	(1,617)

increased Business Rate gross income and reduced Mandatory Charitable and Empties & Part Occupied reliefs, offset by increased Small Business Rate and Discretionary reliefs.	
Reduced provision relating to bad debts as a result of on-going levels of collection – see Section 4.3.3.	(315)
Decreased provision relating to appeals and other rateable value changes of properties.	(133)
Decrease in income from eligible Renewable Energy schemes to be transferred to the Council's General Fund	(5)
Actual deficit brought forward from 2016/17 is £44k higher than had been forecast as part of the 2017/18 Budget process.	44
2017/18 surplus	(2,026)

4.3.2 Valuation Office Agency (VOA) appeals

4.3.2.1 Since 1st April 2013 local authorities have been responsible for providing for future potential losses of income for successful appeals against revaluations which have taken place in 2005, 2010 and 2017. There is still a backlog of appeals that require review by the VOA, mostly dating back to the 2010 RV list.

4.3.2.2 The outstanding number of appeals includes new appeals which have been submitted during the year, offset by cases that have been agreed, withdrawn, or dismissed.

4.3.2.3 The number of property revaluation appeals outstanding at the end of March 2018, relating to Rochdale's 2005 and 2010 valuation lists, was 304 cases, with a rateable value (RV) of £40.1m (equating to approximately £19.9m in annual Business Rates income).

4.3.2.4 The table below provides detail of the movement in the number of appeals outstanding and related rateable value from March 2017 to March 2018:

Outstanding appeals list date	Number of appeals outstanding	Rateable value (RV) £'000
Mar-17	566	48,721
Jul-17	538	47,910
Sep-17	495	46,261
Nov-17	438	45,834
Mar-18	304	40,133

4.3.2.5 New appeals against the 2010 RV list ceased at the end of September 2017.

4.3.2.6 There is currently little information available concerning the level of appeals relating to the 2017 RV list; therefore it is currently unclear what the financial impact may be. An amount has been charged to the Collection Fund to offset reductions in RV that are made by the VOA.

The Government has amended the Business Rates Appeals system, with effect from 1st April 2017, introducing a three-stage approach to Business Rates Appeals:

- Check stage, in which facts concerning the property are agreed between the Valuation Office Agency (VOA) and the ratepayer.
- Challenge stage, during which the great majority of cases are resolved between the VOA and the ratepayer.
- Appeal stage which focuses on issues which remain outstanding and which are material, on the basis of arguments and evidence which have already been established.

4.3.2.7 The level of provision for outstanding appeals relating to 2005, 2010 and 2017 RV revaluations is £9.4m.

4.3.2.8 The level and outcome of appeals is a volatile area. The 2017/18 charge to the Collection Fund for appeals is £3.445m which reflects the need to offset the potential impact of appeals and other rateable value changes relating to the 2017 RV list, and any shortfall in provision relating to the 2005 and 2010 lists.

4.3.3 Business rates 2017/18 collection performance

4.3.3.1 The collection rate for Business Rates income billed in 2017/18 is 98.7%, which is 0.4% higher than the 2016/17 performance. Collection performance is monitored on a monthly basis to ensure that debt is recovered as efficiently and effectively as possible, and so that any trends may be highlighted and action taken as necessary.

4.3.3.2 Table 3 shows the aged debt analysis of Business Rates arrears, excluding legal costs, as at 31st March 2017 and 31st March 2018. Pre 2017/18 arrears are £0.889m as at 31st March 2018, which is a net decrease of £0.919m from the position at end of March 2017.

Table 3 – Business Rates arrears (excluding legal costs)

Year	Arrears as at end March 2017	Arrears as at end March 2018	Decrease / (increase) in debt
	£'000	£'000	£'000
Pre 2017/18 debt			
2016/17	885	493	392
2015/16	210	206	4
2014/15	243	21	222
2013/14	165	17	148
2012/13	112	7	105
2011/12	98	59	39
Prior to 2011	95	86	9
Total arrears	1,808	889	919

4.3.3.3 The 2017/18 charge to the Collection Fund for bad and doubtful debts is £0.733m, which is £0.315m below the budget. In year debt collection has continued to

improve, resulting in a low level of debt to provide a provision for, and pre 2017/18 debt is at a low level.

4.4 Council Tax

4.4.1 Net Income Raised

4.4.1.1 The 2017/18 outturn position relating to Council Tax is a surplus of £2.314m. Table 4 provides details of the outturn position for Council Tax.

Table 4 – 2017/18 Council Tax Income

Description	Budget	2017/18 outturn	(Surplus) / Deficit	(Surplus) / Deficit movement from update at January 2018 Cabinet
	£'000	£'000	£'000	£'000
INCOME				
Income from Council Tax	(121,337)	(121,567)	(230)	33
Income from premium on empty properties	(157)	(151)	6	4
Council Tax discounts	12,227	12,252	25	(37)
Local Council Tax Support Scheme (LCTSS)	17,802	16,968	(834)	118
Hardship Relief	50	-	(50)	-
Prior year adjustments	50	230	180	55
Total income	(91,365)	(92,268)	(903)	173
EXPENDITURE				
Charge re bad debt provision	2,741	1,296	(1,445)	(456)
Total expenditure	2,741	1,296	(1,445)	(456)
Net income to be raised for precept/ billing authority after LCTSS awarded	(88,624)	(90,972)	(2,348)	(283)
2017/18 payments to Preceptors	88,624	88,624	-	-
In year surplus	-	(2,348)	(2,348)	(293)
(Surplus)/deficit brought forward from 2016/17	(5,075)	(5,041)	34	-
Payments to preceptors re 2016/17 surplus as per the 2017/18 Budget process	5,075	5,075	-	-
Surplus as at 31/3/18	-	(2,314)	(2,314)	(293)

4.4.1.2 The main areas of overall variance from the budget are:

Explanation of variance	Variation to budget, £000
Increased Council Tax gross income, partially offset by forecast increased discounts, and prior year adjustments.	(19)
Reduced level of Local Council Tax Support Scheme discount/ Hardship Relief given.	(884)
Reduced charge relating to the bad debt provision.	(1,445)
Actual surplus brought forward from 2016/17 is £34k lower than had been forecast as part of the 2017/18 Budget process.	34
2017/18 outturn surplus	(2,314)

4.4.2 Local Council Tax Support Scheme (LCTSS)

4.4.2.1 The award of Local Council Tax Support to a Council Tax payer is deducted from Council Tax bills at the start of the financial year as a discount. This remains the same unless there is a change of circumstances within the household. Local Council Tax Support relief given for 2017/18 was £16.968m which is £0.834m (4.7%) less than the budget of £17.802m.

Table 5 - LCTSS - Comparison of estimate to outturn as at 31st March 2018

	Estimated number of claimants	Number of claimants per actual data at end March 2018	Increase/ (reduction) in claimant numbers	% reduction in claimants
Working age total	14,132	13,887	(245)	(1.73%)
Pension credit age total	8,866	8,164	(702)	(7.92%)
Total	22,998	22,051	(947)	(4.12%)

	Estimate	2017/18 actual	(Surplus)/deficit Variation	% reduction in discount given
	£'000	£'000	£'000	%
Working age total	9,778	9,682	(96)	(0.98%)
Pension credit age total	8,024	7,286	(738)	(9.20%)
Total	17,802	16,968	(834)	(4.68%)

4.4.2.2 Whilst the current number of claimants has reduced by 4.12% compared to budget, the reduction in discount given is 4.68%, meaning that the average level of support per claimant is lower than that anticipated when the 2017/18 scheme was agreed.

4.4.3 Council Tax 2017/18 collection performance

4.4.3.1 The collection rate for Council Tax income billed in 2017/18 is 94.8%, which is 0.3% higher than the 2016/17 equivalent. Collection performance is monitored on a monthly basis to ensure that debt is recovered as efficiently and effectively as possible, and so that any trends may be highlighted and action taken as necessary.

4.4.3.2 Table 6 shows the age debt analysis of pre 2017/18 Council Tax debt, excluding legal costs, as at 31st March 2017 and 31st March 2018. Pre 2017/18 arrears as at 31st March 2018 were £7.994m, which is a net decrease of £4.880m from the end of March 2017 position.

Table 6 – Council Tax arrears, excluding legal costs

Year	Arrears as end March 2017 £'000	Arrears as at end March 2018 £'000	Decrease in debt £'000
Pre 2017/18 debt			
2016/17	4,703	3,003	1,700
2015/16	2,865	2,021	844
2014/15	1,973	1,360	613
2013/14	1,319	948	371
2012/13	674	219	455
2011/12	576	189	387
Prior to 2011	764	254	510
Total arrears	12,874	7,994	4,880

4.4.3.3 The 2017/18 charge to revenue for bad and doubtful debts is £1.296m, which is £1.445m below the budget. This is due to the continued on-going improvement in the collection of debt, both in year and prior years, and reduced levels of write off of debt, which has led to the level of provision required being reduced.

4.4.4 Council Tax Premium Waivers

4.4.4.1 Residential properties that have been empty for more than two years are, with specific exemptions, charged a Council Tax premium of a further 50% of the usual charge. To support the local housing market, the Head of Revenues & Benefits, in consultation with the Cabinet Member for Finance, has delegated authority to waive part or all of the premium charge in exceptional circumstances. In 2017/18 there have been 11 cases in which discretion has been exercised, totalling £6,231.

4.5 Alternatives considered

Not reporting on financial performance puts at risk the achievement of the Authority's Medium Term Financial Strategy. Effective financial management is critical to ensuring that financial resources are received in line with the budget, which enables them to be targeted towards the Council's priorities. Monitoring enables the early identification of variations against the plan and facilitates timely corrective action

Costs and Budget Summary

5. Financial Implications

- 5.1 The main body of the report provides a detailed analysis of the 2017/18 Collection Fund outturn position.
- 5.2 The Council's 2018/19 General Fund budget set at Budget Council in March 2018

included an estimated 2017/18 Collection Fund surplus of £2.203m. The difference between this estimate and the actual 2017/18 outturn of £4.024m is held within the Collection Fund for 2018/19.

Risk and Policy Implications

- 6.1 Unresolved appeals against the revaluation assessments for 2005, 2010 and 2017 cause uncertainty and financial risk for the Business Rates income retained by the Council. The situation is monitored on a monthly basis to ensure that any changes in the trend for successful appeals are recognised due to the future impact on Business Rates income and the impact for the provision for any backdated elements.
- 6.2 The VOA alters rating assessments if new information comes to light indicating that the valuation is inaccurate. These could relate to a demolition, new property builds or other physical changes to a property. The number of alterations, financial impact and timing of the revaluations are not within the control of the Council.
- 6.3 The future level of collection of both Business Rates and Council Tax debt is a potential financial risk. Collection performance is being monitored on a monthly basis to ensure that debt is recovered as efficiently and effectively as possible, and so that any trends may be highlighted and action taken as necessary.
- 6.4 There is an on-going potential Business Rates risk concerning a request to cancel a backdated business rates liability. The rates liability amounts to £1.74m and including interest may amount to £2m. The initial request was refused, but further challenge was received. The Council has confirmed with the agent for the organisation that there is no intention to cancel the liability and explained the rationale. Legal Counsel's opinion has been sought, and this has confirmed the Council's decision to refuse the request to cancel the liability. No assumption around this risk has been built into the appeals provision.
- 6.5 Agents for some NHS health trusts are in the process of applying for Business Rate relief due to charitable status, with backdated effect. DCLG are aware of the issue and are currently assessing the legal grounds for the submission. This has the potential to impact upon Business Rates income, but no provision has been made for this issue currently.
- 6.6 There is an on-going risk that issues decided nationally by the VOA could potentially impact on Rochdale BC's business rates income.
- 6.7 The Government amended the Business Rates Appeals system with effect from 1st April 2017, and there is a new three-stage approach to Business Rates Appeals: Check, Challenge and Appeal. There is currently little information available regarding appeals raised relating to 2017 rateable values; therefore it is unclear what the financial impact of the new system will be.

Consultation

7. The Leadership Team, Cabinet Member for Finance, and Shadow Portfolio Holder for Corporate & Resources have been informed of the 2017/18 Collection Fund

outturn position and its implications for future years. The report will be presented to the Corporate Overview and Scrutiny Committee on 19th June 2018.

Background Papers	Place of Inspection
8. For further information about this report or access to any background papers contact Stuart Smith	No1 Riverside Floor 2
For Further Information Contact:	Stuart Smith, Stuart.Smith@rochdale.gov.uk Tel : 01706 924196