

## Report to Cabinet



Date of Meeting	14 <sup>th</sup> September 2017
Portfolio	Cabinet Member for Corporate & Resources
Report Author	Julie Murphy
Public/Private Document	Public

### Collection Fund 2017/18

#### Executive Summary

1. To update Cabinet and Corporate Overview and Scrutiny Committee on the Council's forecast 2017/18 Collection Fund position as at the end of July 2017.

#### Recommendation

2. Note the forecast 2017/18 Collection Fund position as at the end of July 2017.

#### Reason for Recommendation

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

#### Key Points for Consideration

#### 4. 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 forecast Collection Fund 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 forecast Collection Fund Position for 2017/18 is a surplus of £1.436m, comprising:

- £0.071m deficit relating to Business Rates;
- £1.507m surplus relating to Council Tax.

4.2.2 Table 1 following shows the forecast 2017/18 position on the Collection Fund as at 31<sup>st</sup> July 2017, and the allocation of the forecast surplus between precepting authorities.

**Table 1 - Collection Fund surplus 2017/18**

	Business Rates		Council Tax		Total
	%	£'000	%	£'000	£'000
<b>Forecast Collection Fund (surplus)/deficit at 31/03/18</b>		<b>71</b>		<b>(1,507)</b>	<b>(1,436)</b>
<b><u>Preceptors' Share of 2017/18 forecast outturn</u></b>					
Rochdale BC	99	70	86.70	(1,307)	(1,237)
Police & Crime Commissioner for Greater Manchester	-	-	9.71	(146)	(146)
Greater Manchester Fire and Rescue Authority	1	1	3.59	(54)	(53)
Central Government	-	-	-	-	-
<b>Total forecast (surplus)/deficit</b>	<b>100</b>	<b>71</b>	<b>100</b>	<b>(1,507)</b>	<b>(1,436)</b>

4.2.3 The Council's share of the forecast 2017/18 Collection Fund surplus as at 31<sup>st</sup> July 2017 is £1.237m.

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 Authority.

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. Discussions are on-going with DCLG regarding the financial arrangements.

### **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 deficit of £0.071m.

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 £0.360m has been included in the forecast outturn to reflect the possible relief that will be given. This was not known about when the 2017/18 Budget was set, so has impacted on the outturn position forecast. The Council will receive Section 31 grant to compensate for this loss of income, and this will be credited to the General Fund.

4.3.1.3 Table 2 following provides detail of the current 2017/18 Business Rates position:

**Table 2 – 2017/18 Business Rates income**

Description	Budget	2017/18 forecast	(Surplus)/ Deficit	(Surplus)/Deficit movement from July Cabinet Finance Update
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Gross income	(77,592)	(79,000)	(1,408)	(392)
Net Small Business Rate relief	5,969	6,200	231	300
Mandatory Charitable relief	4,179	4,300	121	121
Discretionary relief	911	1,294	383	388
Empties & Part Occupied relief	5,150	5,850	700	-
<b>Net Income</b>	<b>(61,383)</b>	<b>(61,356)</b>	<b>27</b>	<b>417</b>
Less:				
Charge re bad debt provision	1,048	1,048	-	-
Allowance for cost of collection	281	281	-	-
Provision for rateable value revaluations	3,578	3,578	-	-
Renewable energy schemes	496	496	-	-
<b>Net yield</b>	<b>(55,980)</b>	<b>(55,953)</b>	<b>27</b>	<b>417</b>
2017/18 payments to preceptors/billing authority	55,980	55,980	-	-
<b>In year surplus</b>	<b>-</b>	<b>27</b>	<b>27</b>	
(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)	-	-
<b>Forecast deficit as at 31/3/18</b>	<b>-</b>	<b>71</b>	<b>71</b>	<b>-</b>

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

<b>Explanation of variance</b>	<b>Variation to budget, £000</b>
Forecast increased Business Rates gross income, offset by increased Small Business Rates Relief, charitable relief, discretionary relief, and empty/part occupied relief.	27
Actual deficit brought forward from 2016/17 is £44k higher than had been forecast as part of the 2017/18 Budget process.	44
<b>2017/18 forecast deficit</b>	<b>71</b>

#### 4.4.2 Valuation Office Agency (VOA) appeals

4.4.2.1 Since 1<sup>st</sup> 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.

4.4.2.2 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.

4.4.2.3 The number of property revaluation appeals outstanding at the end of July 2017, relating to Rochdale's 2005 and 2010 valuation lists, was 538 cases, with a rateable value (RV) of £47.9m (equating to approximately £23.8m in annual Business Rates income).

4.4.2.4 The level of provision for appeals relating to the 2005 and 2010 revaluations is £9.4m.

<b>Outstanding appeals list date</b>	<b>Number of appeals outstanding</b>	<b>Rateable value (RV) £'000</b>
March 2017	566	48,721
July 2017	538	47,910

4.4.2.5 New appeals against the 2010 RV list will cease after September 2017. An additional amount of provision has been included in respect of appeals that may be raised to the end of September 2017.

4.4.2.6 There is currently no information available concerning the level of appeals relating to the 2017 RV list, therefore it is currently unclear what the financial impact may be.

The Government has amended the Business Rates Appeals system, with effect from 1<sup>st</sup> April 2017. There is a new 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.

4.4.2.7 The level and outcome of appeals is a volatile area. The 2017/18 charge to the Collection Fund for appeals is currently £3.578m which reflects the need to offset the impact of appeals relating to the 2017 RV list, and any shortfall in provision relating to the 2005 and 2010 lists.

#### 4.4.3 Business rates 2017/18 collection performance

4.4.3.1 The year to date collection rate for Business Rates income that has been billed in 2017/18 is 35.6%, which is 0.4% lower than that at the equivalent period in 2016/17. 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 3 shows the aged debt analysis of Business Rates arrears, excluding legal costs, as at 31<sup>st</sup> March 2017 and 31<sup>st</sup> July 2017. Pre 2017/18 arrears are £3.104m as at 31<sup>st</sup> July 2017, which is a net increase of £1.296m from 31<sup>st</sup> March 2017 position.

**Table 3 – Business Rates arrears (excluding legal costs)**

Year	Arrears as at 31st March 2017	Arrears as at 31st July 2017	Decrease/ (increase) in debt
	£'000	£'000	£'000
<b>Pre 2017/18 debt</b>			
2016/17	885	1,635	(750)
2015/16	210	881	(671)
2014/15	243	167	76
2013/14	165	122	43
2012/13	112	109	3
2011/12	98	96	2
Prior to 2011	95	94	1
<b>Total arrears</b>	<b>1,808</b>	<b>3,104</b>	<b>(1,296)</b>

4.4.3.3 There has been a significant change to one RV assessment which has now been split into 19 different assessments. This has affected prior year income relating to 2015/16 and 2016/17, which has had the effect of increasing the levels of arrears in 2015/16 and 2016/17 by £2m, and created a credit balance relating to the original assessment of approximately £1.5m.

4.4.3.4 The forecast 2017/18 charge to the Collection Fund for bad and doubtful debts is £1.048m, which is in line with budget.

## 4.6 Council Tax

### 4.6.1 Net Income Raised

4.6.1.1 The 2017/18 current forecast position relating to Council Tax is a surplus of £1.507m. Table 4 provides details of the forecast position for Council Tax

**Table 4 – 2017/18 Council Tax Income**

Description	Budget	2017/18 forecast	(Surplus)/ Deficit	(Surplus)/ Deficit movement from July Cabinet Finance Update
	£'000	£'000	£'000	£'000
<b>INCOME</b>				
Income from Council Tax	(121,337)	(121,400)	(63)	(400)
Income from premium on empty properties	(157)	(160)	(3)	(5)
Council Tax discounts	12,227	12,158	(69)	100
Local Council Tax Support Scheme	17,802	17,300	(502)	(252)
Hardship Relief	50	25	(25)	-
Prior year adjustments	50	150	100	-
<b>Total income</b>	<b>(91,365)</b>	<b>(91,927)</b>	<b>(562)</b>	<b>(557)</b>
<b>EXPENDITURE</b>				
Charge re bad debt provision	2,741	1,762	(979)	-
<b>Total expenditure</b>	<b>2,741</b>	<b>1,762</b>	<b>(979)</b>	<b>-</b>
<b>Net income to be raised for precept/ billing authority after LCTSS awarded</b>	<b>(88,624)</b>	<b>(90,165)</b>	<b>(1,541)</b>	<b>(557)</b>
2017/18 payments to Preceptors	88,624	88,624	-	-
<b>In year surplus</b>	<b>-</b>	<b>(1,541)</b>	<b>(1,541)</b>	<b>(557)</b>
(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	-	-
<b>Forecast surplus as at 31/3/18</b>	<b>-</b>	<b>(1,507)</b>	<b>(1,507)</b>	<b>(557)</b>

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

<b>Explanation of variance</b>	<b>Variation to budget, £000</b>
Forecast increased Council Tax gross income, partially offset by reduced Single Person and Empty Property discounts.	(60)
Forecast reduced level of Local Council Tax Support Scheme discount/ Hardship Relief given.	(502)
Forecast reduced charge relating to the bad debt provision.	(979)
Actual surplus brought forward from 2016/17 is £34k lower than had been forecast as part of the 2017/18 Budget process.	34
<b>2017/18 forecast surplus</b>	<b>(1,507)</b>

#### 4.6.2 Local Council Tax Support Scheme (LCTSS)

4.6.2.1 The award of Local Council Tax Support to a Council Tax payer is deducted from Council Tax bills at the start of the year as a discount. This will remain the same unless there is a change of circumstances within the household. Local Council Tax Support relief given for 2017/18 is forecast to be £17.300m which is £0.502m (2.8%) less than the budget of £17.802m.

**Table 5 - LCTSS - Comparison of estimate to forecast as at the end of July 2017**

	<b>Estimated number of claimants</b>	<b>Number of claimants per actual data at end July 2017</b>	<b>Increase/ (reduction) in claimant numbers</b>	<b>% reduction in claimants</b>
Working age total	14,132	14,048	(84)	(0.59%)
Pension credit age total	8,866	8,525	(341)	(3.85%)
<b>Total</b>	<b>22,998</b>	<b>22,573</b>	<b>(425)</b>	<b>(1.85%)</b>

	<b>Estimate</b>	<b>2017/18 forecast</b>	<b>(Surplus)/deficit Variation</b>	<b>% reduction in discount given</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>
Working age total	9,778	9,895	117	1.20%
Pension credit age total	8,024	7,405	(619)	(7.71%)
<b>Total</b>	<b>17,802</b>	<b>17,300</b>	<b>(502)</b>	<b>(2.82%)</b>



4.6.2.2 Whilst the current number of claimants has reduced by 1.85% compared to budget, the reduction in discount given is 2.82%, meaning that the average level of support per claimant is slightly lower than that anticipated when the 2017/18 scheme was agreed.

### 4.6.3 Council Tax 2017/18 collection performance

4.6.3.1 The year to date collection rate for Council Tax income that has been billed in 2017/18 is 37%, which is the same as that at the equivalent period in 2016/17. 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.

4.6.3.2 Table 6 shows the age debt analysis of pre 2017/18 Council Tax debt, excluding legal costs, as at 31<sup>st</sup> March 2017 and 31<sup>st</sup> July 2017. Pre 2017/18 arrears as at 31<sup>st</sup> July 2017 were £11.220m, which is a net decrease of £1.654m from 31<sup>st</sup> March 2017 position.

**Table 6 – Council Tax arrears, excluding legal costs**

Year	Arrears as at 31st March 2017 £'000	Arrears as at 31st July 2017 £'000	Decrease/ (increase) in debt £'000
<b>Pre 2017/18 debt</b>			
2016/17	4,703	3,882	821
2015/16	2,865	2,560	305
2014/15	1,973	1,747	226
2013/14	1,319	1,187	132
2012/13	674	625	49
2011/12	576	533	43
Prior to 2011	764	686	78
<b>Total arrears</b>	<b>12,874</b>	<b>11,220</b>	<b>1,654</b>

4.6.3.3 The forecast 2017/18 charge to revenue for bad and doubtful debts is £1.762m, which is £0.979m 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.

### 4.6.4 Council Tax Premium Waivers

4.6.4.1 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 4 cases in which discretion has been exercised, totalling £3,736.

## 4.7 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 current forecast position.
- 5.2 The Council's 2017/18 General Fund budget set at Budget Council in March 2017 included an estimated 2016/17 Collection Fund surplus of £4.359m. The difference between this estimate and the Council's share of the actual 2016/17 outturn of £4.321m is held within the Collection Fund for 2017/18.

## **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 has been received. A letter has been issued to the agent for the organisation confirming that the council does not intend to cancel the liability and explaining the rationale. A response has been received recently from the agent requesting further clarification. Before responding further, Legal Counsel's opinion has been sought. This confirms the Council's decision to refuse the request to cancel the liability. A further letter will be issued to the rating agent concerned. No assumption around this risk has been built into the appeals provision at this stage.

- 6.5 On 31st March 2015 the Council was informed by the VOA that they had received a proposal to alter the rating list and to merge a telecommunications network that currently appears in the Council's rating list into part of a single national assessment, backdated to 1st April 2010. The rateable value of the hereditament is £368k; the Council's share of the annual business rates income being £89k. The VOA is considering this proposal. The issue will potentially affect any local authority within which the company concerned has a property relevant to their proposal, including Rochdale BC. A provision for the whole of the potential impact has been made in relation to this issue.
- 6.6 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. No provision has been made for this issue This has the potential to impact upon business rates income.
- 6.7 There is an on-going risk that issues decided nationally by the VOA could potentially impact on Rochdale BC's business rates income.
- 6.8 The Government amended the Business Rates Appeals system with effect from 1<sup>st</sup> April 2017, and there is a new three-stage approach to Business Rates Appeals: Check, Challenge and Appeal. It is currently unclear what the financial impact of the new system will be.

<b>Consultation</b>
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7. The Leadership Team, Cabinet Member for Corporate & Resources and Opposition Portfolio Holder for Corporate & Resources have been informed of the 2017/18 Collection Fund current forecast position and its implications for future years. The report will be presented to the Corporate Overview and Scrutiny Committee on 19<sup>th</sup> September 2017.

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