

**COLLECTION FUND OUTTURN – 2019/20****1. Background**

- 1.1. The Council is required to establish and maintain a Collection Fund under the Local Government Finance Acts 1988 and 1992. The Fund accounts for the collection of Council Tax and Business Rates or National Non-Domestic Rates (NNDR) and the distribution of sums received to relevant authorities. These amounts are kept separate from the main activities of the Council which are accounted for in the General Fund. Transfers from the Collection Fund to the General Fund are made at a planned level and, therefore, if the actual position is better or worse than planned leading to a greater surplus/deficit than previously forecast, this will be rolled forward to be taken into account in the next budget setting round, which will be 2021/22 in this instance.

**2. Council Tax****2.1. Council Tax Summary**

The Collection Fund position for 2019/20 applicable to the Council Tax element of the Fund is summarised below:

<b>Table 1</b>	<b>£m</b>	<b>£m</b>
Income:		
Council Tax Income due in 2019/20	(418.458)	
Adjustment to sums due for prior years	3.322	
Contribution to Bad Debt Provision	13.281	
<b>Total Income</b>		(401.855)
Budgeted Precepts 2019/20		
Birmingham City Council	347.394	
New Frankley in Birmingham Parish	0.031	
Sutton Coldfield Town Council	1.851	
West Midlands Police & Crime Commissioner	38.379	
West Midlands Fire and Rescue Authority	15.246	
<b>Total Expenditure</b>		402.901
<b>2019/20 In Year Deficit</b>		<b>1.046</b>
<b>2018/19 Surplus b/fwd</b>		<b>(4.937)</b>
<b>Cumulative Council Tax Surplus c/fwd</b>		<b>(3.891)</b>

- 2.2. The actual in-year deficit on the Council Tax element of the Collection Fund for 2019/20 was £1.0m. The cumulative balance brought forward from 2018/19 amounted to a surplus of £4.9m, giving a closing cumulative surplus at the end of 2019/20 of £3.9m.

2.3. A £7.0m cumulative surplus was forecast when setting the 2020/21 budget. The final cumulative surplus is £3.1m lower, resulting in a surplus of £3.9m to be carried forward into future years. The make-up of this is summarised in table 2:

<b>Table 2</b>		<b>£m</b>	<b>£m</b>
<b>Forecast Cumulative position for 2019-20 Budget Setting</b>			<b>(7.019)</b>
Changes to Reliefs		1.810	
Decrease in Council Tax Support (CTS)		(0.658)	
Prior Year Adjustments, mainly increase in Bad Debt Provision		1.977	
			3.128
<b>Cumulative Council Tax Surplus c/fwd</b>			<b>(3.891)</b>

The increase in Bad Debt provision includes £4.4m related to Covid-19.

2.4. The Council's share of the surplus is £3.4m, which compares to a surplus of £6.1m anticipated when the Council Tax for 2020/21 was set. This surplus will be taken into account when setting the budget for 2021/22. The allocation of the total accumulated surplus, from Council Tax at 31 March 2020 is outlined in Table 3:

<b>Table 3</b>	<b>Forecast</b>	<b>Outturn</b>	<b>Variance</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Council	(6.085)	(3.377)	2.707
Police & Crime Commissioner	(0.669)	(0.364)	0.305
Fire & Rescue Authority	(0.266)	(0.150)	0.116
<b>Total Surplus</b>	<b>(7.019)</b>	<b>(3.891)</b>	<b>3.128</b>

#### 2.5. Council Tax Arrears

A summary of the Council Tax Arrears position for the end of 2019/20 is shown in Table 4.

<b>Table 4</b>	<b>Prior Years</b>	<b>2019/20</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Balance b/f prior years	105.162		105.162
Adjustments	(3.322)		(3.322)
Due in year		418.458	418.458
Collected	(16.460)	(384.128)	(400.587)
Amounts Written Off	(10.062)	(0.124)	(10.185)
Credits Written On	1.206	0.000	1.206
<b>Council Tax Arrears</b>	<b>76.524</b>	<b>34.207</b>	<b>110.731</b>

A summary of the Council Tax Arrears position for 2019/20 compared with 2018/19 is shown in Table 5.

Table 5	31 March 2019	31 March 2020	Change
	£m	£m	£m
Council Tax Arrears Prior Years	73.980	76.524	2.544
Council Tax Arrears In Year	31.182	34.207	3.025
<b>Council Tax Debtors</b>	<b>105.162</b>	<b>110.731</b>	<b>5.569</b>

## 2.6. Provision for Doubtful Debts

The provision for bad and doubtful debts stands at £35.8m as at 31 March 2020, £4.4m more than the amount set aside at the end of 2018/19. The 2019/20 year end provision is compared in Table 6 to the prior year:

Table 6	31-Mar-18	31-Mar-19	Change
	£m	£m	£m
Council Tax Arrears Debtors (Gross)	105.162	110.731	5.569
Less Provision for Bad or Doubtful Debts	(31.399)	(35.824)	(4.425)
<b>Council Tax Debtors (Net)</b>	<b>73.763</b>	<b>74.907</b>	<b>1.144</b>
Bad Debt Provision as % of Gross Debtors	29.9%	32.4%	2.5%

During the year there has been a net amount of £8.9m written off relating to Council Tax debts (£10.1m debt write offs less £1.2m of credits written on) compared with £10.5m net write-offs in 2018-19. After making a further contribution to the provision for bad and doubtful debts of £13.3m, including £4.4m extra provision related to Covid-19, in 2019/20, the overall provision has increased by £4.4m.

## 2.7. Collection Performance

Set out below is the in-year collection performance for the past three years. This shows the in-year collection rates as reported to the Ministry for Housing Communities and Local Government (MHCLG) as required by the Final Quarterly Return for the Collection of Council Tax and Business Rates (QRC4).

The adjusted actual in year collection rate was 94.3% which includes adjustments as per QRC4 guidelines.

Table 7 shows the comparative prior year rates:

Table 7	Actual In Year Council Tax Collection Rates		
	2017/18	2018/19	2019/20
QRC4 Base	94.5%	94.4%	94.3%

There is a downwards trend that has been affected by the introduction of Universal Credit. This is indicative of the position across other Councils and reflects a national trend. However, the eventual collection rate over time is expected to reach the estimated rate of 97.1% assumed when setting the budget since the Council will continue to collect outstanding debt in future years.

### 3. Business Rates - National Non-Domestic Rates (NNDR)

- 3.1. In 2019/20 the Council has continued to be part of a Business Rates Pilot for the local retention of 100% Business Rates. This means that the Council retains 99% of Business Rates income with 1% being paid over to the West Midlands Fire & Rescue Authority. This has been in place since 1<sup>st</sup> April 2017 before which, Business Rates was apportioned between Central Government (50%), The City Council (49%) and the West Midlands Fire & Rescue Authority (1%).

#### 3.2. Business Rates Summary

The Collection Fund position for 2019/20 applicable to the Business Rates element of the Fund is summarised below:

<b>Table 8</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
	<b>Outside the EZ</b>		<b>Enterprise Zone (EZ)</b>	
Business Rates Income due for 2018/19	(456.700)		(3.957)	
Adjustments for Prior Years	-		-	
Contribution to Appeals Provision	9.589		1.505	
		(447.111)		(2.453)
Contribution to Bad Debt Provision (incl credits written on)	15.453		0.079	
Cost Of Collection Allowance	1.844		-	
		17.297		0.079
Total Income		(429.814)		(2.373)
Expenditure:				
Budgeted Proportionate Shares 2018/19:				
Central Government	-		-	
Birmingham City Council	437.069		-	
West Midlands Fire and Rescue Authority	4.415		-	
Enterprise Zone	-		3.933	
Total Expenditure		441.484		3.933
2018/19 In Year Deficit/(Surplus)		11.670		1.560
2017/18 Surplus b/fwd	5.294		-	
Back Dated Appeals Spread Adjustment	-		-	
		5.294		-
Cumulative Business Rates Deficit/(Surplus) c/fwd		16.964		1.560

- 3.3. Excluding the Enterprise Zone (EZ) the actual in-year deficit on the Business Rates element of the Collection Fund for 2019/20 was £11.7m. The cumulative balance brought forward from 2018/19 amounted to a deficit of £5.3m. Therefore the closing position at the end of 2019/20 is a deficit of £17.0m.

- 3.4. A £15.5m deficit was forecast when setting the 2020/21 budget and the main reasons for the increase of £1.5m in the deficit can be explained as follows:

- Appeals (£9.9m favourable movement) – There has been a reduction in the anticipated appeals losses or contributions to the appeals provision compared to that assumed when setting the 2020/21 budget. The majority of this is due to the releasing of appeals provision set aside in previous years for backdated losses that are no longer expected to materialise. This follows the receipt in February of updated information from the Valuation Office Agency (VOA).

This has been partially offset by:

- Growth Forecast (£0.6m adverse movement) – Based on the plan for a third party to identify additional business rates rateable value (RV) in the city, the 2019/20 budget allowed for growth. Whilst properties have been identified, due to delays in the VOA applying the new RVs to the rating list, there is a shortfall in 2019/20. This is expected to be realised in future years assuming liabilities are backdated once the VOA apply the new RVs to the ratings list.
- Empty Property Relief (£2.7m adverse movement) – At 2020/21 Budget setting empty property relief was expected to be lower than the budgeted position, based on prior year experience, resulting in a forecast surplus. However, through a combination of the continued use of compulsory purchase orders and increased levels of transient businesses, empty property relief has increased significantly throughout the financial year. The ongoing impact of this will be closely monitored during 2020/21.
- Small Business Rate Relief (£1.8m adverse movement) - The significant variation for Small Business Relief is offset by additional Section 31 Grants to the General Fund.
- Provision for Doubtful Debt (£6.2m adverse movement) – There has been an increase in business rates debtors falling into administration or becoming insolvent resulting in a required increase in the provision for doubtful debts over and above the level anticipated when setting the budget for 2020/21. This provision also includes an extra provision of £3.9m related to potential effects of Covid-19.

Table 9 shows the movement between the forecast and outturn surplus positions:

<b>Table 9</b>		<b>£m</b>	<b>£m</b>
<b>Forecast Cumulative Deficit for 2020/21 Budget Setting</b>			<b>15.515</b>
Forecast Deficit due to anticipated growth		1.147	
Actual Deficit due to anticipated growth		1.759	
			0.613
Forecast Surplus due to decrease in Empty Property reliefs		(0.470)	
Actual Deficit due to increase in Empty Property reliefs		2.276	
			2.746
Forecast Deficit due to increase in small business rate relief		3.814	
Actual Deficit due to increase in small business rate relief		5.655	
			1.840
Forecast Surplus due to decrease in provision for doubtful debts		(0.172)	
Actual Deficit due to increase in provision for doubtful debts		6.043	
			6.215
Forecast Deficit due to increase in other reliefs		4.115	
Actual Deficit due to decrease in other reliefs		4.109	
			(0.006)
Forecast Deficit due to decrease in provision for appeals		1.787	
Actual Surplus due to decrease in provision for appeals		(8.173)	
			(9.960)
<b>Cumulative Business Rates Surplus c/fwd</b>			<b>16.964</b>

3.5. The following table shows the proportionate shares of the 2019/20 Business Rates surplus compared with the forecast for the 2020/21 budget setting process:

<b>Table 10:</b>	<b>Forecast</b>	<b>Outturn</b>	<b>(Improvement) / Decline</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Central Government (nil for 2019/20)	0.000	0.000	0.000
Fire (1%)	0.155	0.170	0.014
BCC (99%)	15.360	16.794	1.435
<b>Total</b>	<b>15.515</b>	<b>16.964</b>	<b>1.449</b>

3.6. The Council's share of the deficit at outturn is £16.8m, which is £1.4m worse than the position anticipated when the budget for 2020/21 was set. This £1.4m will be taken into account when setting the budget for 2021/22.

3.7. Within the Enterprise Zone the actual in year income generated relating to Business Rates was £2.3m. This compares to £3.9m when the budget for 2019/20 was set resulting in a significant deficit of £1.6m.

### 3.8. Business Rates Arrears 2019/20

A summary of the Business Rates Arrears position for the end of 201/20 including the element attributable to the Enterprise Zone, is shown in Table 11:

<b>Table 11</b>	<b>Prior Years</b>	<b>2019/20</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
NNDR Arrears b/fwd prior years	95.967		95.967
Adjustments/Net of Refunds	(2.936)		(2.936)
Due in year:			
Non EZ		453.998	453.998
Enterprise Zone (EZ)		3.722	3.722
Collected	(9.248)	(424.659)	(433.907)
Amounts Written Off	(21.514)	(0.418)	(21.932)
Credits Written On	1.446	0.021	1.467
<b>Business Rates Arrears</b>	<b>63.715</b>	<b>32.665</b>	<b>96.379</b>

A summary of the Business Rates Arrears position for 2019/20 compared with 2018/19 is shown in Table 12:

<b>Table 12</b>	<b>31 March 2019</b>	<b>31 March 2020</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Business Rates Arrears Prior Years	70.481	63.715	(6.766)
Business Rates Arrears In Year	25.486	32.665	7.179
<b>Business Rates Debtors</b>	<b>95.967</b>	<b>96.379</b>	<b>0.412</b>

### 3.9. Provision for Doubtful Debts

The Business Rates Bad Debt provision has moved from £52.5m to £47.6m, a decrease of £4.9m. The 2019/20 year end provision is compared in Table 13 to the previous year:

<b>Table 13</b>	<b>31 March 2019</b>	<b>31 March 2020</b>	<b>Change</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Business Rates Arrears (Gross)	95.967	96.379	0.412
Less Provision for Bad or Doubtful Debts	(52.510)	(47.578)	4.932
<b>Business Rates Debtors (Net)</b>	<b>43.457</b>	<b>48.802</b>	<b>5.345</b>
Bad Debt Provision as % of Gross Debtors	54.7%	49.4%	-5.4%

During the year there has been a net amount of £20.5m written off relating to Business Rates debts (£21.9m debt write offs less £1.4m of credits written on) compared with £11.6m net write-offs in 2018-19. After making a further contribution to the provision for bad and doubtful debts in 2019/20 of £15.6m, including amounts relating to the Enterprise Zone, the overall provision has decreased by £4.9m.

### 3.10. Collection Performance

For Business Rates the adjusted actual in year collection rate calculated was 96.9% (2018/19: 96.3%). This is the in-year collection rate as reported to the Ministry for Housing Communities and Local Government as required by the Final Quarterly Return for the Collection of Council Tax and Business Rates (QRC4) and is inclusive of allowable adjustments.

Set out below is the QRC4 in-year collection performance for the past three years.

<b>Table 14</b>	<b>Actual In Year Business Rates Collection Rates</b>		
	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
QRC4 Base	97.1%	96.3%	96.9%

There has been an increase of 0.6% in the reported in year collection rate. This would have been slightly higher if not for effects of Covid-19 at the end of the year.

The service will focus more on the collection of Business rates moving forward. However, the eventual collection rate over time is expected to reach the estimated rate of 98.0% assumed when setting the budget as the Council will continue to collect outstanding debt in future years.