

COLLECTION FUND OUTTURN – 2018/19**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 2020/21 in this instance.

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

The Collection Fund position for 2018/19 applicable to the Council Tax element of the Fund is summarised below:

Table 1	£m	£m
Income:		
Council Tax Income due in 2018/19	(387.625)	
Adjustment to sums due for prior years	0.712	
Contribution to Bad Debt Provision	6.001	
Total Income		(380.912)
Budgeted Precepts 2018/19		
Birmingham City Council	329.265	
New Frankley in Birmingham Parish	0.046	
Sutton Coldfield Town Council	1.851	
West Midlands Police & Crime Commissioner	32.171	
West Midlands Fire and Rescue Authority	14.731	
Total Expenditure		378.064
2018/19 In Year Surplus		(2.848)
2017/18 Surplus b/fwd		(2.089)
Cumulative Council Tax Surplus c/fwd		(4.937)

- 2.2. The actual in-year surplus on the Council Tax element of the Collection Fund for 2018/19 was £2.8m. The cumulative balance brought forward from 2017/18 amounted to a surplus of £2.1m, giving a closing cumulative surplus at the end of 2018/19 of £4.9m.

2.3. A balanced position was forecast when setting the 2019/20 budget, resulting in a surplus of £4.9m to be carried forward into future years. The make-up of this is summarised in table 2:

Table 2	£m	£m
Forecast Cumulative position for 2019-20 Budget Setting		-
Reduction in contribution to provision for doubtful debt	(5.033)	
Other minor variations	0.096	
		(4.937)
Cumulative Council Tax Surplus c/fwd		(4.937)

2.4. The Council's share of the surplus is £4.3m, which compares to a balanced position anticipated when the Council Tax for 2019/20 was set. This surplus will be taken into account when setting the budget for 2020/21. The allocation of the total accumulated surplus, from Council Tax at 31 March 2019 is outlined in Table 3:

Table 3	Forecast	Outturn	Variance
	£m	£m	£m
Council	(0.000)	(4.280)	(4.280)
Police & Crime Commissioner	(0.000)	(0.470)	(0.470)
Fire & Rescue Authority	(0.000)	(0.187)	(0.187)
Total Surplus	(0.000)	(4.937)	(4.937)

2.5. Council Tax Arrears

A summary of the Council Tax Arrears position for the end of 2018/19 is shown in Table 4.

Table 4	Prior Years	2018/19	Total
	£m	£m	£m
Balance b/f prior years	100.573		100.573
Adjustments	(0.712)		(0.712)
Due in year		387.625	387.625
Collected	(15.421)	(356.376)	(371.797)
Amounts Written Off	(11.654)	(0.069)	(11.723)
Credits Written On	1.194	0.002	1.196
Council Tax Arrears	73.980	31.182	105.162

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A summary of the Council Tax Arrears position for 2018/19 compared with 2017/18 is shown in Table 5.

Table 5	31 March 2018	31 March 2019	Change
	£m	£m	£m
Council Tax Arrears Prior Years	72.200	73.980	1.780
Council Tax Arrears In Year	28.373	31.182	2.809
Council Tax Debtors	100.573	105.162	4.589

2.6. Provision for Doubtful Debts

The provision for bad and doubtful debts stands at £31.4m as at 31 March 2019, a £4.5m decrease from the £35.9m set aside at the end of 2017/18. The 2018/19 year end provision is compared in Table 6 to the prior year:

Table 6	31 March 2018	31 March 2019	Change
	£m	£m	£m
Council Tax Arrears Debtors (Gross)	100.573	105.162	4.589
Less Provision for Bad or Doubtful Debts	(35.860)	(31.399)	4.461
Council Tax Debtors (Net)	64.713	73.763	9.050
Bad Debt Provision as % of Gross Debtors	35.6%	29.9%	-5.7%

During the year there has been a net amount of £10.5m written off relating to Council Tax debts (£11.7m debt write offs less £1.2m of credits written on) compared with £10.6m net write-offs in 2017-18. After making a further contribution to the provision for bad and doubtful debts of £6.0m in 2018/19, the overall provision has decreased by £4.5m.

This reduction in the level of provision required is mainly as a result of additional resources in the Revenues service being utilised to review customer accounts holistically, looking at all Council Tax debts owed rather than individual years as has been the case in the past. The result of this work is that many outstanding liabilities have been moved to more appropriate enforcement stages or have been brought back into the early stages of the recovery cycle, due to the debt being considered to be more collectable, resulting in a lower provision being required.

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 94.4% which includes adjustments as per QRC4 guidelines.

Table 7 shows the comparative prior year rates:

Table 7	Actual In Year Council Tax Collection Rates
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	2016/17	2017/18	2018/19
QRC4 Base	94.6%	94.5%	94.4%

There is a slight downwards trend that has been affected by the introduction of Universal Credit. This is indicative of the position across other Council's 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 2018/19 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 1st 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 2018/19 applicable to the Business Rates element of the Fund is summarised below:

Table 8	£m	£m	£m	£m
	Outside the EZ		Enterprise Zone (EZ)	
Business Rates Income due for 2018/19	(449.896)		(1.834)	
Adjustments for Prior Years	4.591		0.480	
Contribution to Appeals Provision	3.546		1.530	
		(441.759)		0.176
Contribution to Bad Debt Provision (incl credits written on)	11.363		(0.271)	
Cost Of Collection Allowance	1.880		-	
		13.243		(0.271)
Total Income		(428.516)		(0.095)
Expenditure:				
Budgeted Proportionate Shares 2018/19:				
Central Government	-		-	
Birmingham City Council	418.064		-	
West Midlands Fire and Rescue Authority	4.223		-	
Enterprise Zone	-		2.684	
Total Expenditure		422.287		2.684
2018/19 In Year Deficit/(Surplus)		(6.229)		2.589
2017/18 Surplus b/fwd	(1.285)		-	
Back Dated Appeals Spread Adjustment	-		-	
		(1.285)		-
Cumulative Business Rates Deficit/(Surplus) c/fwd		(7.514)		2.589

3.3. Excluding the Enterprise Zone (EZ) the actual in-year surplus on the Business Rates element of the Collection Fund for 2018/19 was £6.2m. The cumulative balance brought forward from 2017/18 amounted to a surplus of £1.3m. Therefore the closing position at the end of 2018/19 is a surplus of £7.5m.

3.4. A £12.8m surplus was forecast when setting the 2019/20 budget and the main reasons for the reduction of £5.3m in the surplus can be explained as follows:

- Growth Forecast (£1.3m adverse movement) – In December 2018 the Council extended a pilot contract with a third party to identify additional business rates rateable value (RV) in the city. As a result, additional business rates income was forecast. As of the 31st March 2019 the contractor has achieved their objective. However, there have been delays at the Valuation Office Agency (VOA) with the insertion of the new rateable value into the valuation list. Whilst this has meant anticipated growth has not yet been achieved, it is expected to materialise during the early part of the new financial year.
- Empty Property Relief (£3.3m adverse movement) – At 2019/20 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, mainly as a result of a combination of compulsory purchase orders relating to High Speed 2 (HS2) and Commonwealth Games developments, empty property relief has increased significantly in the final few months of the financial year. The ongoing impact of this will be closely monitored during 2019/20.
- Provision for Doubtful Debt (£2.4m 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 2019/20.

These have been offset by:

- Appeals (£1.2m favourable movement) – There has been a £1.2m reduction in the anticipated appeals losses or contributions to the appeals provision compared to that assumed when setting the 2019/20 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.
- Other Reliefs (£0.5m favourable movement) – There have been net movements in other reliefs compared with the forecast position consisting mainly of charitable and discretionary relief reductions offset by an increase in small business relief, the latter of which has resulted in additional compensatory grants being due from Central Government. These grants have been taken into account in the 2018/19 outturn position in the General Fund.

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

Table 9	£m	£m
Forecast Cumulative Surplus for 2019/20 Budget Setting		(12.808)
Forecast Surplus due to anticipated growth	(0.452)	
Actual Deficit due to anticipated growth	0.891	
		1.343
Forecast Surplus due to decrease in Empty Property reliefs	(2.143)	
Actual Deficit due to increase in Empty Property reliefs	1.179	
		3.322
Forecast Surplus due to decrease in provision for doubtful debts	(0.043)	
Actual Deficit due to increase in provision for doubtful debts	2.333	
		2.376
Forecast Deficit due to increase in other reliefs	4.730	
Actual Deficit due to increase in other reliefs	4.186	
		(0.544)
Forecast Surplus due to decrease in provision for appeals	(13.615)	
Actual Surplus due to decrease in provision for appeals	(14.818)	
		(1.203)
Cumulative Business Rates Surplus c/fwd		(7.514)

3.5. The following table shows the proportionate shares of the 2018/19 Business Rates surplus compared with the forecast for the 2019/20 budget setting process:

Table 10:	Forecast	Outturn	(Improvement)/ Decline
	£m	£m	£m
Central Government (nil for 2018/19)	0.000	0.000	0.000
Fire (1%)	(0.128)	(0.075)	0.053
BCC (99%)	(12.680)	(7.439)	5.241
Total	(12.808)	(7.514)	5.294

3.6. The Council's share of the surplus at outturn is £7.4m, which is £5.2m worse than the position anticipated when the budget for 2019/20 was set. This £5.2m will be taken into account when setting the budget for 2020/21.

3.7. Within the Enterprise Zone the actual in year income generated relating to Business Rates was £0.1m. This compares to £2.7m when the budget for 2018/19 was set resulting in a significant deficit of £2.6m. However, further compensatory grants are due into the General Fund of £1.8m for EZ related Business Rates Reliefs awarded during the year that Central Government have committed to fund.

3.8. Business Rates Arrears 2018/19

A summary of the Business Rates Arrears position for the end of 2018/19, including the element attributable to the Enterprise Zone, is shown in Table 11:

Table 11	Prior Years	2018/19	Total
	£m	£m	£m
NNDR Arrears b/fwd prior years	99.040		99.040
Adjustments/Net of Refunds	(5.071)		(5.071)
Due in year:			
Non EZ		449.896	449.896
Enterprise Zone (EZ)		1.834	1.834
Collected	(11.808)	(426.285)	(438.093)
Amounts Written Off	(12.903)	-	(12.903)
Credits Written On	1.223	0.041	1.264
Business Rates Arrears	70.481	25.486	95.967

A summary of the Business Rates Arrears position for 2018/19 compared with 2017/18 is shown in Table 12:

Table 12	31 March 2018	31 March 2019	Change
	£m	£m	£m
Business Rates Arrears Prior Years	74.013	70.481	(3.532)
Business Rates Arrears In Year	25.027	25.486	0.459
Business Rates Debtors	99.040	95.967	(3.073)

3.9. Provision for Doubtful Debts

The Business Rates Bad Debt provision has moved from £53.0m to £52.5m, a decrease of £0.5m. The 2018/19 year end provision is compared in Table 13 to the previous year:

Table 13	31 March 2018	31 March 2019	Change
	£m	£m	£m
Business Rates Arrears (Gross)	99.040	95.967	(3.073)
Less Provision for Bad or Doubtful Debts	(53.056)	(52.510)	(0.546)
Business Rates Debtors (Net)	45.984	43.457	(3.619)
Bad Debt Provision as % of Gross Debtors	53.6%	54.7%	1.1%

During the year there has been a net amount of £11.6m written off relating to Business Rates debts (£12.9m debt write offs less £1.3m of credits written on) compared with £9.2m net write-offs in 2017-18. After making a further contribution to the provision for bad and doubtful debts in 2018/19 of £11.1m, including amounts relating to the Enterprise Zone, the overall provision has decreased by £0.5m.

3.10. Collection Performance

For Business Rates the adjusted actual in year collection rate calculated was 96.3% (2017/18: 97.1%). 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.

Table 14	Actual In Year Business Rates Collection Rates		
	2016/17	2017/18	2018/19
QRC4 Base	97.2%	97.1%	96.3%

There has been a reduction of 0.8% in the reported in year collection rate compared with the previous year. Of this 0.5% relates to properties that have been compulsory purchased as a result of the HS2 and the Commonwealth Games developments which now have liabilities outstanding due to the empty relief periods on those properties ending prior to demolition. Payments for these are outstanding and are due from the Secretary of State. A further 0.1% relates to a delay in collecting additional Business Rates that have been identified late in the year as a result of the use of a third party contractor to identify additional Rateable Value in the City. This is expected to be received early in the new financial year. The remaining 0.2% appears to come from a general downturn in payments across the entire business rates base.

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.