

Report title	Collection Fund Estimated Outturn 2020-2021	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Louise Miles Resources	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All Wards	
Accountable director	Claire Nye, Director of Finance	
Originating service	Strategic Finance	
Accountable employee(s)	Alison Shannon	Chief Accountant
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Recommendations for decision:

The Cabinet is recommended to approve:

1. The payments to the precepting authorities of their share of the Council Tax deficit in equal instalments.

The estimated outturn in 2020-2021 is a cumulative deficit of approximately £7.8 million after accounting for the Hardship Fund grant to compensate for council tax reliefs but prior to funding for 75% of irrecoverable losses. Based on their proportion of the 2020-2021 council tax bill, as approved by Council in March 2020 the amounts are as follows:

- City of Wolverhampton Council £6.8 million
 - West Midlands Police and Crime Commissioner £660,000
 - West Midlands Fire and Rescue Authority £251,000
2. The apportionment of the payments from the precepting authority of their share of the Business Rates deficit, also referred to as Non-Domestic Rates, in equal instalments.

The estimated outturn in 2020-2021 is a cumulative deficit of approximately £9.0 million after accounting for the forecast additional Covid-19 business rates reliefs funded by Section 31 grant but prior to funding for 75% of irrecoverable losses; this is as a result of a cumulative deficit totalling £818,000 brought forward from 2019-2020 and an estimated deficit in 2020-2021 totalling approximately £8.2 million. As prescribed by legislation the amounts are as follows:

- City of Wolverhampton Council £8.9 million
 - West Midlands Fire and Rescue Authority £90,000
3. That authority be delegated to the Cabinet Member for Resources, in consultation with the Director of Finance, to confirm any final changes to the forecast outturn reflecting any further information received ahead of the statutory deadline of 31 January 2021.

1.0 Purpose

- 1.1 The purpose of this report is to inform Cabinet of the estimated outturn for Council Tax and Business Rates, also referred to as Non-Domestic Rates (NDR), transactions on the Collection Fund in 2020-2021.

2.0 Background

- 2.1 Council Tax billing authorities are required to maintain a Collection Fund in accordance with Sections 89 and 90 of the Local Government Finance Act 1988. The operation of the Collection Fund is prescribed in detail by a series of specifications, regulations and directions made under various sections of the Local Government Finance Acts 1988 and 1992. Broadly, the Collection Fund's income comes from receipts of Council Tax and Business Rates, also referred to as Non-Domestic Rates (NDR), collected from taxpayers and any amounts transferred in (e.g. in respect of previous years' deficits). Expenses met from the Fund consist of adjustments to individuals' and companies' tax liabilities (refunds etc.), the billing authority's own budget demand, write offs, precepts and previous years' surpluses transferable out.
- 2.2 Each billing authority must make an estimate of the surplus or deficit for the Council Tax and Business Rates transactions of the Collection Fund for the current financial year. Such estimated surpluses or deficits do not remain in the Collection Fund but are shared between the billing authority, precepting authorities and central government (where applicable) in the year following the financial year to which they relate. Precepting authorities should be notified of their share of any surplus or deficit within seven working days of the estimate being made.
- 2.3 The surplus or deficit is then transferred in instalments in the financial year following the year for which the surplus or deficit has been estimated. In the case of billing authorities, the amounts are transferable in accordance with the schedule of instalments adopted for the payment of precepts and demands. Transfers to or from precepting authorities must take place in no more than ten equal instalments in the following year. The first and final instalments are to be paid by 31 May 2021 and 31 March 2022 respectively with an equal number of working days between instalments.
- 2.4 All Collection Fund surpluses or deficits for Council Tax transactions are to be ignored for the purpose of calculating the billing or precepting authority's budget requirement. They are, however, to be taken into account in calculating a billing authority's basic Council Tax or a joint authority's precept.
- 2.5 It is important to note however that the estimated Collection Fund outturn for the current financial year has to be forecast by January of that year and is based upon information available at a point in time. Therefore, any changes to the assumptions that occur in the remaining months of the financial year, will have an impact on actual Council Tax and Business Rates collected and consequentially the final outturn on the Collection Fund. Any resulting change to the surplus or deficit, will be recovered in future years.

2.6 During 2020-2021, Covid-19 has had a significant international, national and regional impact and will continue to do so over the short and medium term. It is not yet known how long the pandemic will go on for or what the level of future support required will be. The economic costs of the pandemic will place additional pressures on the Council's income collected from council tax and business rates for years to come. The Council has seen a decline in the collection rate during 2020-2021 and increases in the numbers of Local Council Tax Support claimants due to the pandemic and predicts that this will continue into 2021-2022.

3.0 Council Tax Estimated Outturn 2020-2021

3.1 The estimate on the Collection Fund for 2020-2021 in relation to Council Tax is set out below and includes assumptions about collection rates. It is forecast that there will be an accumulated deficit in the region of £7.8 million at 31 March 2021, after accounting for the Hardship Fund grant to compensate for council tax reliefs but prior to funding for 75% irrecoverable losses. The Government have confirmed that the in-year deficit on the Collection Fund in 2020-2021 can be spread over 3 years. The deficit will be apportioned between precepting authorities during 2021-2022, 2022-2023 and 2023-2024.

Table 1 – Forecast Council Tax Outturn 2020-2021

	£000	£000
Actual accumulated deficit at 1 April 2020		532
Apportionment of 2019-2020 estimated surplus calculated January 2020 (payments made during 2020-2021)		
City of Wolverhampton Council	465	
West Midlands Police and Crime Commissioner	44	
West Midlands Fire and Rescue Authority	17	526
Net deficit 2019-2020		1,058
Estimated income 2020-2021		
Income from Council Tax	(122,361)	
Total estimated income		(122,361)
Estimated expenditure 2020-2021		
Demands on Collection Fund		
City of Wolverhampton Council	108,843	
West Midlands Police and Crime Commissioner	10,521	
West Midlands Fire and Rescue Authority	4,001	
Provision for non-collection of council tax	8,969	
Total estimated expenditure		132,334

Transfer linked to Hardship Fund grant for council tax relief		(3,272)
Net estimated deficit 2020-2021 after Hardship Fund grant for council tax relief		6,701
Estimated accumulated deficit at 31 March 2021		7,759

- 3.2 The overall position in terms of the allocation of the deficit between the Council and the precepting bodies is summarised in Table 2. The split is based on the 2020-2021 council tax bill that was approved by Full Council in the formal council tax resolutions on 4 March 2020.
- 3.3 As detailed above, the Covid-19 pandemic has had a significant impact on Wolverhampton. The forecast deficit has arisen as a result of the decline in the council tax collection during 2020-2021 and increases in the numbers of Local Council Tax Support claimants. The 'Talk to Us' campaign, where residents are encouraged to contact the Council to discuss council tax payment options, is receiving positive engagement.

Table 2 – Recommended split of forecast Council Tax deficit for 2020-2021, to be distributed in 2021-2022, 2022-2023 and 2023-2024

Council Tax	City of Wolverhampton Council £000	West Midlands Police and Crime Commissioner £000	West Midlands Fire and Rescue Authority £000	Total £000
Actual accumulated deficit at 1 April 2020	471	44	17	532
Plus: Apportionment of 2019-2020 estimated surplus calculated January 2020 (payments made during 2020-2021)	465	44	17	526
Additional accumulated deficit at 1 April 2020 (to be apportioned during 2021-2022)	936	88	34	1,058
Apportionment of 2020-2021 estimated	5,912	572	217	6,701

deficit calculated January 2021 (to be spread over 3 years from 2021-2022)				
Total Forecast Deficit at 31 March 2021 (to be apportioned)	6,848	660	251	7,759

- 3.4 The Government have announced that that the repayment of collection fund deficits arising in 2020-2021 can be spread over a three year period (2021-2022 to 2023-2024). The sums due from the two precepting authorities will be reflected in equal instalments alongside the precepts payable for 2021-2022 as set out in paragraph 2.3.
- 3.5 In the Spending Review 2020, £762 million of funding was announced to compensate local authorities for 75% of irrecoverable losses from council tax and business rates revenues in 2020-2021, that would otherwise need to be funded through local authority budgets in 2021-2022 and later years. Provisional allocations have not been announced.

4.0 Business Rates (Non-Domestic Rates) Estimated Outturn 2020-2021

- 4.1 The estimate on the Collection Fund for 2020-2021 in relation to Business Rates, also referred to as Non-Domestic Rates (NDR), is set out below. It is forecast that there will be an accumulated deficit of £9.0 million at 31 March 2021 after accounting for the forecast additional Covid-19 business rates reliefs funded by Section 31 grant but prior to funding for 75% irrecoverable losses. The Government have confirmed that the in-year deficit on the Collection Fund in 2020-2021 can be spread over 3 years. The deficit will be apportioned between precepting authorities during 2021-2022, 2022-2023 and 2023-2024.

Table 3 - Forecast Business Rates Outturn 2020-2021

	£000	£000
Actual accumulated deficit at 1 April 2020		939
Apportionment of 2019-2020 estimated surplus/deficit calculated as at January 2020 (payments made during 2020-2021)		
City of Wolverhampton Council	140	
Central Government	(261)	
West Midlands Fire and Rescue Authority	(1)	(122)
Net deficit 2019-2020		817
Estimated income 2020-2021		
Income from Business Rates (NDR)	(43,545)	
Transitional Payment	(293)	

Total estimated income		(43,838)
Estimated expenditure 2020-2021		
Demands on Collection Fund		
City of Wolverhampton Council (including designated areas and renewable energy)	74,025	
West Midlands Fire and Rescue Authority	745	
Provision for non-collection of NDR (incl. appeals)	7,583	
Cost of Collection Allowance	331	
Total estimated expenditure		82,684
Net estimated deficit 2020-2021 prior to compensation due for Covid-19 business rates reliefs		38,846
Forecast compensation for Covid-19 business rates reliefs		(30,661)
Net estimated deficit 2020-2021 after forecast compensation for Covid-19 business rates reliefs		8,185
Estimated accumulated deficit at 31 March 2021		9,002

- 4.2 As detailed above, the Covid-19 pandemic has had a significant impact on the Wolverhampton community and economy. It is important to note, that it continues to be very difficult to arrive at an accurate forecast for business rates collection during 2020-2021. The forecast deficit has arisen as a result of the decline in business rates collection during 2020-2021 and the potential increase in business rates appeals arising as a result of potential changes in circumstances.

4.3 The overall position in terms of the allocation of the deficit between the Council and the precepting body is summarised in Table 4 below. The split is prescribed by legislation.

Table 4 – Recommended split of forecast Business Rates deficit for 2020-2021, to be distributed in 2021-2022

Business Rates	City of Wolverhampton Council	West Midlands Fire and Rescue Authority	Central Government	Total
	£000	£000	£000	£000
Additional accumulated deficit at 1 April 2020 (to be apportioned during 2021-2022)	669	9	261	939
Apportionment of 2019-2020 estimated (surplus)/deficit calculated January 2021 (to be apportioned during 2020-2021)	140	(1)	(261)	(122)
Additional accumulated deficit at 1 April 2020 (to be apportioned during 2021-2022)	809	8	-	817
Apportionment of 2020-2021 estimated deficit calculated January 2021 (to be spread over 3 years from 2021-2022) after forecast compensation for Covid-19 business rate reliefs	8,103	82	-	8,185
Total Forecast Deficit (to be apportioned)	8,912	90	-	9,002

4.4 The Government have announced that that the repayment of collection fund deficits arising in 2020-2021 can be spread over a three year period (2021-2022 to 2023-2024). The sums due from the precepting body will be paid in equal instalments alongside the

precepts payable for 2021-2022 as set out in paragraph 2.3. In addition to this, the Government have also provided Section 31 grant for Covid-19 business rates reliefs granted to businesses, in order to compensate local authorities for the reduction in business rates income.

4.5 As stated above, in the Spending Review 2020 £762 million of funding was announced to compensate local authorities for 75% of irrecoverable losses from council tax and business rates revenues in 2020-2021, that would otherwise need to be funded through local authority budgets in 2021-2022 and later years. Provisional allocations have not been announced.

5.0 Evaluation of alternative options

5.1 The estimated outturn on the Collection Fund for 2020-2021 has been prepared in accordance with specifications, regulations and directions made under various sections of the Local Government Finance Acts 1988 and 1992.

6.0 Reasons for decisions

6.1 Cabinet is recommended to approve the payments to/from the precepting bodies based on the estimated outturn of the Collection Fund for 2020-2021. This will inform the budget setting process for 2021-2022, for the Council and precepting bodies.

6.2 Approval is also sought to delegate authority to the Cabinet Member for Resources, in consultation with the Director of Finance, to confirm any final changes to the forecast outturn reflecting any further information received ahead of the statutory deadline of 31 January 2021. This will ensure that the most up to date information is used to inform 2021-2022 budgets.

7.0 Financial implications

7.1 The total Collection Fund accumulated deficit in 2020-2021 is estimated to be in the region of £16.8 million, of which the Council will be expected to retain a deficit of approximately £15.8 million. This is the net sum of the forecast deficit relating to Council Tax (£6.8 million Table 2) and forecast deficit relating to Business Rates (£8.9 million Table 4). It is important to note that this forecast deficit is: after forecast compensation for Covid-19 business rates reliefs via Section 31 grant and the Hardship Fund grant provided to billing authorities in order to compensate them for the reduction in business rates income and council tax income; prior to recognising 75% irrecoverable losses grant for council tax and business rates, and that the forecast deficit for 2020-2021 can be spread over 3 years from 2021-2022.

7.2 The Council's Medium Term Financial Strategy will be updated to reflect the forecast outturn on the Collection Fund.

7.3 It is important to note however that the estimated Collection Fund outturn for the current financial year has to be forecast by January of that year and is based upon information available at a point in time. Therefore, any changes to the assumptions that occur in the

remaining months of the financial year, will have an impact on actual Council Tax and Business Rates collected and consequentially the final outturn on the Collection Fund. Any resulting change to the surplus or deficit, will be recovered in future years.

[MH/14012021/Z]

8.0 Legal implications

8.1 The relevant legislation is contained in the body of the report and the recommendations are made in accordance with the legislation.

[TS/14012021/T]

9.0 Equalities implications

9.1 There are no relevant equalities implications arising from this report.

10.0 All other implications

10.1 The Covid implications are discussed in the body of the report.

11.0 Schedule of background papers

11.1 Council, 4 March 2020 – 'Council Tax Formal Resolutions'
Council, 6 March 2019 - 'Council Tax Formal Resolutions'