

LONDON BOROUGH OF BRENT

EXECUTIVE - 7TH JANUARY 2004

REPORT FROM THE DIRECTOR OF FINANCE

THE COLLECTION FUND – SURPLUS/DEFICIT AT 31st MARCH 2004

FP REF: BFS-03/04-65

1. SUMMARY

- 1.1 As part of the Council Tax setting process for 2004/05, the Council is required to estimate the amount of any surplus or deficit on the Collection Fund as at 31st March 2004. This must be done by the 15th January 2004, and this report asks Members to approve the balance projected.

2. RECOMMENDATIONS

- 2.1 To agree the calculation of the estimated Collection Fund balance as at the 31st March 2004 as a deficit of £1,500,000.

3. LEGAL IMPLICATIONS

- 3.1 Regulation 10 of the Local Authority (Funds) Regulation 1992, made under Section 99 of the Local Government Finance Act 1988, requires an estimate of the surplus or deficit on the Council's collection fund to be made by 15 January each year. This estimate is one of the figures to be used in the budget and council tax setting process to be undertaken by Full Council in March.

4. FINANCIAL IMPLICATIONS

- 4.1 The proposals in this report have a direct impact on the level of Council Tax in 2004/05. Any deficit or surplus has to be taken into account in the calculation of next year's Council Tax.

5. STAFFING IMPLICATIONS

- 5.1 None directly.

6. DETAIL

- 6.1 Income from Council Tax is used to fund budget precepts on the Fund from Brent and the Greater London Authority (GLA), which levies a precept on London's local authorities. If the eventual collection of Council Tax is estimated to be greater than precepts on the Fund (taking the cumulative position since the introduction of Council Tax in 1993), a surplus occurs. If the reverse happens, as is the case in Brent, there is a deficit. Any surplus or deficit is shared between Brent and the GLA in its role as a preceptor.

6.2 Total arrears as at 31/3/03 were £25.292m. The total bad debt provision (including the £1m deficit declared at 31/3/03) was £12.281m. Therefore approximately £13m of debts to this date need to be collected to avoid the necessity for further provisions. To the end of November 2003 £2.18m had been recovered. The average monthly figure over the last four months has been approximately £300,000. If this is maintained until March, this would give a full year total of £3.4m, significantly above last year's £2.53m. It is hoped that this improvement would continue, particularly as CAPITA, the Council's new revenues contractor, become more established in their role and arrangements for tracing and bailiff recovery are improved, and that the bulk of the collection requirement can eventually be achieved, albeit after several years.

6.3 Factors to Consider

In considering the Collection Fund position at 31st March 2004, there are a number of factors Members need to bear in mind.

6.3.1 The projection should reflect what is felt to be eventually collectable, however many years in the future that may be. Experience with Community Charge arrears shows that collection continues for many years after the initial debt arises. Community Charge was in operation between 1990 and 1993, but substantial amounts were still being collected several years later, (the total for the four years 1997/98 to 2000/01 was £1.934m). Even though collection will obviously fall off as debts becomes older, Council Tax arrears built up to the present will also continue to be collected over several years.

6.3.2 The shortfall as at 31st March 2003, as outlined in para. 6.2, is approximately £13.0m. It is estimated that in the full 2003/04 financial year, £3.4m of Council Tax arrears will have been collected in relation to earlier years (including c.£0.5m of backdated benefits), leaving a further £9.6m to collect. Based on projections of future year's collection of arrears, (allowing for increased arrears recovery under the new contract from May 2003), it is estimated that a further £7.5m may eventually be collectable for years up to 2002/03. In addition assessments for new properties in 2003/04 (including backdated assessments for previous years), will raise a further £0.6m, leaving a shortfall of approximately £1.5m. This figure is dependent on the required collection level of 97.5% for 2003/04 debits eventually being achieved. CAPITA will be obliged under the terms of the contract to indemnify the Council for any shortfall in the target, up to a specified level of £1m per annum, which amounts to approximately 1.25% of the net annual debit (net of benefit granted).

6.3.3 The contract with EDS for Council Tax collection expired in April 2003. It was hoped that Capita would improve on the performance of EDS, and that by putting more resources in to arrears collection, including a dedicated arrears recovery team, that there would be a substantial improvement in collection levels. There are detailed targets for collection of arrears, and for in-year recovery levels, with the provision for penalties as outlined above.

6.3.4 The experience to date with CAPITA has been that collection of prior years arrears has improved. However collection of current years bills is substantially below last years levels (at the end of November, the percentage collection was 2.8% below last year). It is anticipated that this will improve but if it does not a further provision will be required to meet this deficit. Collection levels are being monitored and examined very closely.

6.4 Why a Deficit is Anticipated

6.4.1 In setting its budget each year, Brent has assumed a higher collection rate than most other London boroughs (98% for the five years to 2000/01 and 97.5% from 2001/02 to 2003/04). As a result, Brent has built up a lower bad debt provision than other boroughs, and this is a major factor in the need to create a further provision in 2004/2005. In addition, collection performance achieved by EDS was below expectations.

6.4.2 The rate of Council Tax collection in Brent had shown a marked improvement, until the introduction of a new software system in mid 1999, when there was a fall in collection. It had been hoped that this would be a temporary phenomenon due to difficulties experienced during and after the move to the new system. In practice, in-year collection levels did recover slightly, but in 2002/03, the last year of the EDS contract, Brent's in year collection was one of the lowest in the country (89.5% of 2002/03 debts collected by 31/3/03). In addition, recovery of prior years arrears was also disappointing.

6.4.3 In 1998/99 a total of £3.076m of prior year arrears were collected either in terms of payments or backdated benefits. This figure has not been achieved since, and except for one year, has been between £2.5m and £2.7m, despite the overall level of arrears rising year on year (£2.53m was recovered in 2002/03). The figure for 2003/04 is likely to be higher (est. £3.4m), albeit on a higher arrears base.

6.5 Advice and Recommendations of the Director of Finance

6.5.1 The collection targets agreed with CAPITA are challenging ones, and will take several years to achieve, but with improved collection methods, it is hoped that a large proportion of the shortfalls in collection to date will eventually be collected. However it is extremely unlikely that the full requirement will be collected, and it is therefore necessary to declare a deficit for 2004/2005. In addition, the Council's external auditors have consistently expressed the view that the current provision level is inadequate. Given these factors there is no realistic option other than to declare a deficit, and the figure of £1,500,000 is considered the absolute minimum that can be recommended as at 31st March 2004. Members have to reach a decision on the state of the Collection Fund each January, and there may well be a need to declare further deficits in later years, if collection levels are not as high as hoped.

6.5.2 Any deficit on the Collection Fund as at 31st March 2004 will be split with the Greater London Authority. A deficit of £1m was declared last year, which entailed a charge of £8.84 to each Brent taxpayer for Brent's share of the deficit. The GLA share (based on their share of the total precept in 2003/04) would be 20.87% of any deficit. If a deficit of £1.5m is declared, the GLA share would be £313,100, leaving Brent's proportion as £1,186,900.

7. SUMMARY

7.1 In view of the factors outlined above, we recommend that the projected balance on the Collection Fund as at 31st March 2004 be declared as a deficit of £1,500,000. This would leave Council Tax bills for 2004/05 including an element of approximately £12.99 to meet Brent's share of this deficit, (as against the £8.84 in 2003/04). This would lead to a 0.39% increase in the Band D Council Tax figure.

8. BACKGROUND INFORMATION

Revenue and Benefits Monthly Progress Reports - Council Tax Collection Statement.

Council Tax Accounts 1993/94 onwards.

Any person wishing to inspect the above should contact David Huberman, Finance Manager, Town Hall, Forty Lane, Wembley. Telephone 020-8908-1478.

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