

# LONDON BOROUGH OF BRENT

Meeting of the Executive  
17<sup>th</sup> January 2005

## Report from the Director of Finance

For Information/Action

Wards affected:

### Report Title: **COLLECTION FUND SURPLUS/DEFICIT AT 31<sup>ST</sup> MARCH 2005**

Forward Plan Ref: BFS-04/05-90

#### 1. SUMMARY

- 1.1 As part of the Council Tax setting process for 2005/2006, the Council is required to estimate the amount of any surplus or deficit on the Collection Fund as at 31<sup>st</sup> March 2005. This must be done by the 15<sup>th</sup> January 2005 (or first working day thereafter), 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 31<sup>st</sup> March 2005 as a deficit of £1,500,000.

#### 3. DETAIL

- 3.1 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.
- 3.2 Total arrears as at 31/3/04 were £29.676m. The total bad debt provision (including the £1.5m deficit declared at 31/3/04) was £15.6m. Therefore approximately £14.1m of debts to this date need to be collected to avoid the necessity for further provisions. To the end of November 2004 £3.03m had been recovered. The average monthly figure over the last four months has been approximately £350,000. This is likely to fall slightly until March, giving a likely full year total of £4.2m, significantly above last year's £3.02m. It is

hoped that this improvement would continue, particularly as CAPITA 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.

### 3.3 Factors to Consider

In considering the Collection Fund position at 31<sup>st</sup> March 2005, there are a number of factors Members need to bear in mind.

3.3.1 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).

3.3.2 The shortfall as at 31<sup>st</sup> March 2004, as outlined in para. 3.2, was approximately £14.1m. It is estimated that in the full 2004/05 financial year, £4.2m of Council Tax arrears will have been collected in relation to earlier years (including around £0.8m of backdated benefits), leaving a further £9.9m to collect. Based on projections of future years' collection of arrears, it is estimated that a further £8.0m may eventually be collectable for years up to 2003/2004. In addition assessments for new properties in 2004/2005 (including backdated assessments for previous years) will raise a further £0.4m, leaving a shortfall of approximately £1.5m. This figure is dependent on the required collection level of 97.5% for 2004/2005 debts eventually being achieved. CAPITA will be obliged under the terms of the contract to indemnify the Council for any shortfall in the target for 2003/2004 and 2004/2005, up to a specified level of £1m per annum.

3.3.3 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, 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.

3.3.4 The experience to date with CAPITA has been that collection of prior years' arrears has improved. Collection of in-year bills showed less improvement in 2003/04, when 90.6% of debts had been collected by 31<sup>st</sup> March 2004, against a target of 92%. However, it is hoped that the target of 93% will be achieved in 2004/2005.

### 3.4 Why a Deficit is Anticipated

3.4.1 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 2004/05). As a result, Brent has built up a lower bad debt provision and this is a major factor in the need to create a further

provision in 2005/2006. In addition, collection performance achieved by EDS was below expectations.

- 3.4.2 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 but not as quickly as hoped.
- 3.4.3 The performance of the previous contractor was extremely poor in collecting prior year arrears towards the end of the contract. Only £2.53m was recovered in 2002/2003, which increased to £3.02m in 2003/2004, the first year in which CAPITA were the contractors. The figure for 2004/2005 is estimated to be £4.2m.
- 3.4.4 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 2005/2006. Given these factors there is no realistic option other than to declare a deficit, and the figure of £1,500,000 is considered the minimum that can be recommended as at 31<sup>st</sup> March 2005.
- 3.4.5 Any deficit on the Collection Fund as at 31<sup>st</sup> March 2005 will be split with the Greater London Authority. The GLA share (based on their share of the total precept in 2004/2005) would be 21.15% of any deficit. If a deficit of £1.5m is declared, the GLA share would be £317,200, leaving Brent's proportion as £1,182,800.

#### **4. FINANCIAL IMPLICATIONS**

- 4.1 The proposals in this report have a direct impact on the level of Council Tax in 2005/2006. Any deficit or surplus has to be taken into account in the calculation of next year's Council Tax.

#### **5. LEGAL IMPLICATIONS**

- 5.1 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 (or the next working day). This estimate is one of the figures to be used in the budget and council tax setting process to be undertaken by Full Council on 28<sup>th</sup> February.

#### **6. DIVERSITY IMPLICATIONS**

- 6.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

## **7. STAFFING IMPLICATIONS**

7.1 None directly.

## **8. SUMMARY**

8.1 In view of the factors outlined above, we recommend that the projected balance on the Collection Fund as at 31<sup>st</sup> March 2005 be declared as a deficit of £1,500,000. This would leave Council Tax bills for 2005/2006 including an element of approximately £12.74 at Band D to meet Brent's share of this deficit.

## **9. 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.

**DUNCAN McLEOD**  
**Director of Finance**