Brent	**Cabinet** 14 December 2015 **Report from the Chief Finance Officer**
	Wards Affected: ALL

Collection Fund Report

1.0 SUMMARY

1.1 As part of the Council Tax setting process for 2016/2017 the Council is required to estimate the amount of any surplus or deficit on the Collection Fund as at 31 March 2016. This must be done by 15 January 2016 in relation to Council Tax, and this report asks Members to approve the estimated balance for both Council Tax and Business Rates (NNDR).

1.2 For Council Tax, as a result of continued effective collection of amounts due to the council it is now possible to return the benefits of this as a one-off contribution to support the 2016/17 budget. Brent Council's share of the total surplus is £2.503m. This technical surplus relates to council tax due on or before 31 March 2016, where the council has been more effective than previously assumed in collecting arrears, and also reflects strong collection performance of debts relating to 2015/16, and a large increase in the net collectable figure during 2015/16.

2. RECOMMENDATIONS

2.1. To agree the estimated Collection Fund balance relating to Council Tax at 31 March 2016 as a surplus of £3.2m. (Brent's share being £2.503m)

2.2. To note the current estimated balance relating to NNDR at 31 March 2016 as zero (no surplus or deficit).

2.3 To delegate to the Chief Finance Officer authority to amend these figures, should material new information, such as debt collection performance, come to light in the intervening period.

3. DETAIL

3.1. COUNCIL TAX

3.1.1. Income from Council Tax is paid into the ‘collection fund’. Brent and the Greater London Authority (GLA) make charges (formally known as ‘precepts’) on this fund to finance their budgets. If the eventual collection of Council Tax is greater than precepts on the collection fund, taking the cumulative position since the introduction of Council Tax in 1993, a surplus will be generated. If the reverse happens, there will be a deficit. Any surplus or deficit is shared between Brent and the GLA. It is normal and proper practice to estimate these surpluses or deficits in setting the budget and to make distributions to the preceptors, or to require contributions from them, according to those estimates.

3.1.2. Total arrears as at 31 March 2015 not covered by bad debt impairments were £2.1m. This means that if the council estimates that debts at this date of less than this amount will eventually be collected the fund will be in deficit, and that if future collection is anticipated to exceed this figure, a surplus can be declared.

3.1.3. In considering the Collection Fund position at 31 March 2016, it should be noted that the in-year collection of council tax has improved in recent years. It increased from 93.2% in 2006/07 to 95.9% in 2012/13. It had been anticipated that the collection rate for 2013/14 would be lower, following the introduction of the local Council Tax Support scheme, but there was only a slight reduction to 95.7% in 2013/14 and 95.6% in 2014/15. It is estimated that the final figure for 2015/16 will again be in the region of 95.6%. Collection of arrears will then continue for several years.

3.1.4. The shortfall as at 31 March 2015, as outlined in paragraph 3.1.2, was £2.1m. It is estimated that in the full 2015/16 financial year, around £1.8m of Council Tax arrears will have been collected in relation to earlier years, leaving a deficit of £0.3m. Based on projections of future years’ collection of arrears, it is estimated that around a further £2.0m will eventually be collectable for years up to 2014/15, leaving a surplus of approximately £1.7m. This figure is dependent on the required collection level of 96.5% for 2015/16 debits eventually being achieved, which would seem likely. In fact collection figures for recent years indicate that eventual collection is more likely to be in the region of 97.5%, and it is the intention to use this assumption in calculating the tax base for 2016/17 and future years. This will reduce the likelihood of surpluses building up over a period of years due to final collection rates exceeding the allowance made in calculating each year’s tax base figure.

3.1.5. During 2015/16 there has been a significant increase to the tax base, due mainly to a very large number of new properties coming in to rating over the last year. In the 12 months to September 2015, 2,395 new properties came in to rating (at Band D equivalent this figure was 2,217). This compares to an increase of 534 Band D equivalents in the previous 12 months. Some of these properties will only be in rating for part of the 2015/16 financial year. There has also been a reduction in council tax support (CTS) of over £1m compared to 2014/15, largely due to an increase in full or part-time employment. The total for CTS could increase again however, if economic conditions deteriorate. The overall impact of this is estimated to increase the surplus available by a further £3.0m, bringing the total to £4.7m.

3.1.5. There is uncertainty over the government's plan to reduce working tax credits and the extent to which this will reduce the assessed income of Council Tax Support claimants on low incomes. This is very likely to lead to an increase in the total of CTS which will be granted. The extent of this cannot be accurately determined until the reductions are finalised and then come in to effect, as each claimants circumstances would have to be assessed. In addition, as mentioned above, there is the possibility that CTS may also rise if economic conditions deteriorate. It would therefore be advisable to allow a contingency of £1.5m to cover the possible increase in CTS. This would bring the surplus figure down to £3.2m. This contingency figure can be reviewed when calculating the surplus / deficit figure next year.

3.1.6. The surplus on the Collection Fund as at 31 March 2016 will be split with the Greater London Authority. The GLA share (based on its share of the total precept in 2015/2016) would be 21.79% of any surplus. If a surplus of £3.2m is declared, the GLA share would be £697,000, leaving Brent's share as £2,503,000.

3.2. BUSINESS RATES (NNDR)

3.2.1. Until the 2012/13 financial year, all business rates collected by local authorities were paid over to the national pool administered by central government, and then redistributed back to local authorities according to assessed spending needs. From 2013/2014 local authorities retain a proportion of the income raised. For London, the local authority keeps 30% of the income, the GLA receives 20%, and the remaining 50% is paid to the national pool to be redistributed as before. Therefore London authorities benefit from 30% of any additional rates income, or bear 30% of the cost of any reduction.

3.2.2. If the year-end income from NNDR is higher than estimated at the start of the year, a surplus would be declared, which would be shared in the same ratios as above. Therefore, if Brent had a surplus it would keep 30% of this. If income was lower than anticipated, there would be a deficit to shared in the same proportion (i.e. Brent would bear 30% of the deficit).

3.2.3. The estimate for the income figure (or net rate yield) for 2016/17, and the surplus or deficit figure as at 31 March 2016 will be taken from the NNDR1 return to be submitted in January. The Non Domestic Rating (Rates Retention) Regulations 2013 require that these figures be calculated and notified to preceptors (central government and the GLA) by 31 January, and the NNDR1 return is used to calculate the figures.

3.2.4. Estimating what the figures will be is complex, as there are many factors which can significantly affect the overall figure, including entitlement to reliefs and properties coming in to, or being taken out, of rating. The biggest uncertainty concerns revaluations arising from appeals against the Valuation Office (VO) determinations. These are very common and can lead to large refunds being backdated several years. At the end of 2014/15 a provision for the cost of backdated appeals to 31/3/2015 of £6.4m was included in the year end accounts. The overall reductions in cases that have been finalised to date indicates that this provision will prove fairly accurate, (even after allowing for a surge in appeals in March 2015, as outlined below) but appeals outstanding still account for approximately £99m of Rateable Value (35% of the total), and the bulk of any revaluation refunds will be backdated to 2010. Therefore this position could potentially still change significantly by the end of January 2016 (or later), which would have an impact on the surplus/deficit position at that date (or future dates). There was a deadline of 31/3/2015 for any appeals against the 2010 rating list, and appeals on RV's totalling approximately £60m were lodged in March 2015. Many of these will be speculative, as ratepayers have nothing to lose by lodging an appeal, and would have been encouraged to do so by rating agents, but the provision made may need to be increased.

3.2.5. There may also be other changes relating to new or demolished buildings, or changes in exemptions such as empty or charity relief. Given the uncertainties outlined above, it is recommended that a forecast of no surplus or deficit is assumed at present. As outlined above, the final figure will be taken from the NNDR1 form in January. The figures taken from this will have a direct impact on the 2016/17 budget, as Brent will have a 30% share of any surplus or deficit.

4. FINANCIAL IMPLICATIONS

4.1 The proposals in this report have a direct impact on the budget for 2016/2017, as any deficits or surpluses have to be taken into account in the calculation of the council tax requirement.

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 (Council Tax) 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 for 2016/17.

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. BACKGROUND INFORMATION

General Purposes Committee Reports – 6 January 2015: Calculation of Council Tax Base 2015/16 and Calculation of Business Rates Income 2015/16

Any person wishing to inspect the above should contact David Huberman, Finance Manager, Civic Centre, Engineers Way, Wembley HA9 0FJ. Telephone 020-8937-1478.

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