Brent	**Cabinet** 12 December 2016 **Report from the Chief Finance Officer**
	Wards affected: ALL
Collection Fund Report	

1.0 Summary

1.1 The vast majority of council taxpayers pay the full amounts due each year. However, some accounts fall into arrears, and of these arrears some, despite the best collection efforts, are never collected. Legally, when setting budgets, local authorities must estimate the "lifetime" council tax collection rate. This rate is the proportion of council tax raised in any one year that will eventually be collected, albeit that it will be several years before the precision of these estimates can be proven.

1.2 Making such long-range estimates is not straightforward. However, with continued improvements to council tax collection, officers can now report that some of the estimates made in earlier years have been exceeded. This had been anticipated when the draft budget was published in October 2016, and the figures now reported confirm this. As a consequence, the surplus reported here is not "new" money: it was already assumed in the budget estimates. Nonetheless, had this improvement in collection rates over several years not been sustained additional savings would have had to be found to ensure that a balanced budget could be presented.

1.3 The Council is required to estimate the amount of any surplus or deficit on the Collection Fund as at 31 March 2017 and how it is shared amongst the constituent precepting bodies and Central Government. This must be done by 15 January 2017 in relation to Council Tax, and this report asks the Cabinet to approve the estimated balance for Council Tax and Business Rates (NNDR).

1.4 The Council will declare a surplus on Council Tax for 2017/18 of £2.796m and a zero surplus/deficit on NNDR for 2017/18. Brent Council's share of the total surplus is £2.253m.

2.0 Recommendations

2.1. To agree the estimated Collection Fund balance relating to Council Tax at 31 March 2017 as a surplus of £2.796m. (Brent's share being £2.253m)

2.2. To note the current estimated balance relating to NNDR at 31 March 2017 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 significant changes in debt collection performance or business rates appeals, come to light before the legal deadline of 15 January 2017.

3.0 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 There are four main factors in the calculation of the estimated surplus/deficit on Council Tax.

1) Surplus / (deficit) brought forward from the previous financial year;
2) Change in the gross income due to variations in relation to discounts, exemptions and the cost of Local Council Tax Support Scheme;
3) Increase to the tax base due to additional new properties being added to the Council Tax list ; and
4) Increase / decrease in the allowance for uncollectable debts.

3.1.3 Total arrears as at 31 March 2016 not covered by bad debt impairments were £2.9m. 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.

3.1.4 In considering the Collection Fund position at 31 March 2017, it should be noted that the in-year collection of council tax has improved in recent years. The in-year collection rate for 2015/16 was 95.9% and it is estimated that the final figure for 2016/17 will exceed 96%. Collection of arrears will then continue for several years.

3.1.5 Between 2013/14 and 2016/17 there has been a significant increase in the tax base, due mainly to a very large number of new properties coming in to banding. In the 12 months to September 2016, 2,968 new properties came in to banding (at Band D equivalent this figure was 2,608). This compares to an increase of 3,741 Band D equivalents in the previous 12 months. Some of these properties will only be in rating for part of the 2016/17 financial year. There has also been a continued reduction in council tax support (CTS) granted compared to 2015/16, largely due to an increase in full or part-time employment. This figure will fluctuate according to economic conditions and employment rates and, in financial terms, is a risk carried by the Council. Changes to the legislation determining other benefits, for example working tax credits, also impact on claimants' assessed income for these purposes, and hence on CTS granted, and is again a financial risk that falls to the Council.

3.1.6. As a result of the factors outlined above, the Council is able to declare a surplus on Council Tax for 2017/18 of £2.796m, where Brent's share will be £2.253m and the GLA's share will be £0.543m. The GLA's share is based on its share of the total precept in 2016/2017, which is 20.04%.

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 be 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 2017/18, and the surplus or deficit figure as at 31 March 2017 will be taken from the NNDR1 return to be submitted in January 2017. 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 2015/16 a provision for the cost of backdated appeals to 31/3/2016 of £11.1m 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.

3.2.5 Therefore this position could potentially still change significantly by the end of January 2017 (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 RVs totaling 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.

3.2.6 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 2017. The figures taken from this will have a direct impact on the 2017/18 budget, as Brent will have a 30% share of any surplus or deficit.

3.2.7 From 2020 business rates will be devolved more fully to local authorities. The government is consulting on the various details of this, and it will still be some time before the full details of this are known. There is a lively, if somewhat dry, debate within the accountancy community as to how this will impact on the future operation of the collection fund, and it may be that in time the requirements for future reports of this nature will change, or even be obviated entirely. The intention is that any changes to the accounting regulations should not materially impact on local authorities' overall financial standing, but until the detail of this is resolved it is not possible to give an absolute assurance on this.

3.2.8 The recent revaluation of business premises’ rateable value, effective 1 April 2017, will not impact on this report, which is concerned with the surplus or deficit on collection against previously budgeted amounts up to 31 March 2017.

4. Financial Implications

4.1 The proposed surplus in the collection fund proposed by way of this report is in line with the assumptions made in the overall budget. Any deficits or surpluses have to be taken into account in the calculation of the council tax requirement, but as the surplus proposed is in line with that previously assumed no significant changes to the budget strategy are required.

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 2017/18.

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.

CONRAD HALL

Chief Finance Officer