

LONDON BOROUGH OF BRENT

COUNCIL MEETING - 26TH JANUARY 2004

REPORT FROM THE DIRECTOR OF FINANCE

CALCULATION OF COUNCIL TAX BASE 2004/05

1. SUMMARY

- 1.1 This report is to enable Members to agree the Council Tax Base for 2004/05. It is required by legislation to be agreed by 31st January prior to the start of the financial year and is used in the calculation of the Council Tax for 2004/05. Under the terms of Section 75 of the Local Government Act 2003, local authorities may now determine to reduce the council tax discount for second homes and long term empty homes from the nationally set 50% to a minimum of 10%. This decision must be made by a meeting of the full Council, and if it is to be taken in to account when setting the budget for 2004/05, cannot be made after the setting of the taxbase.

2. RECOMMENDATIONS

- 2.1 That Members agree:

- (i) That the report of the Director of Finance, and the estimates for the calculation of the Council Tax Base for the year 2004/05, be approved.
- (ii) The collection rate for the Council Tax for 2004/05 is set at **97.5%**.
- (iii) To reduce the discount for second and long-term empty homes from 50% to 10%.
- (iv) In accordance with the Local Authorities (Calculation of Tax Base) Regulations 1992, the amount calculated by the Council as its Council Tax Base for 2004/05 be set at **92,643** (including the effect of reducing the discount for second and long-term empty homes)

3. LEGAL IMPLICATIONS

- 3.1 The Council Tax Base is the equivalent number of Band D dwellings (after taking account of discounts and exemptions) which would raise the same amount of tax as the actual number of liable dwellings in the borough, with their actual spread of bands. The Band D equivalent total is then multiplied by the estimated collection rate for the year, to give the Council Tax Base figure. In the Council Tax calculation process to be undertaken on 1st March 2004, this figure will be used to calculate the amount of tax to be levied for a Band D dwelling. The Council Tax level for each valuation band is then calculated by a fixed ratio which each band bears to the Band D figure. Under Table 6 of Part 4 of the Constitution, the setting of the Council Tax Base is required to be carried out by Full Council.

4. FINANCIAL IMPLICATIONS

4.1 These are included in the detail below.

5. STAFFING IMPLICATIONS

5.1 None arising directly from this report.

6. DETAIL

6.1 Setting of taxbase and percentage collection assumed

6.1.1 The calculation of the tax base is one of the main stages in the process of setting the Council Tax, which is scheduled for the Special Council Meeting on 1st March 2004.

6.1.2 It must be made by 31st January 2004, in accordance with the Local Authorities (Council Tax Base) Regulations 1992.

6.1.3 The calculation is based on a return sent to the Office of the Deputy Prime Minister. The main part of the return is attached as Appendix 1, giving a breakdown of the number of properties in each valuation band. The initial tax base is therefore 93,742. This is the number of Band D equivalent properties, after allowances for exemptions and discounts. The equivalent figure for 2003/04 was 93,075. Therefore there has been an increase of 667. The increase in the total number of properties in the borough is 320. There has been a reduction in the number of Band A properties, (as well as in the number of empty homes) due to demolitions at Chalkhill and elsewhere, but there has been a larger increase in other bands, which has led to the overall Band D equivalent increase of 667.

6.1.4 The second stage is to estimate the authority's rate of collection for the year. Members agreed collection rates of 95% in 1993/94, 97% in 1994/95, 99% in 1995/96, 98% from 1996/97 to 2000/01, and 97.5% from 2001/02 to 2003/04. These percentages relate to what is eventually expected to be collected, not just the assumed collection level by the end of the financial year in question. Collection of arrears continues for several years after the debt arises (for instance, deduction of benefit orders are often applied over several years).

6.1.5 As an indication of likely eventual collection rates, the table below shows the percentage of the total budget requirement collected as at 30th November 2003 for the current year and previous two, along with the assumed collection levels used for setting the tax base.

Update figures for 2003/04

Year	% of budget requirement collected by 30.12.03	Tax base set at %
2003/04	81.0	97.5
2002/03	93.8	97.5
2001/02	95.8	97.5

The percentages collected include debits paid through Council Tax Benefit (which accounts for approximately 20% of the total debit).

- 6.1.6 The collection rate at end of financial year for 2002/03 dropped significantly from that achieved in 2001/02. To date, the figure for 2003/04 has fallen even further. The transition between the EDS contract and CAPITA contracts has probably contributed to this, but this years performance is disappointing, and will need to improve markedly, if the 97.5% collection requirements for 2002/03 and 2003/04 are to eventually be achieved. CAPITA have improved on the collection of prior years arrears, but the position for in-year collection has worsened. The equivalent in-year figure at 31st December 2002 was 81.9%, but there has been an increase in the proportion of the debit covered by benefit, which disguises the real extent of the drop in performance by the contractor (2.3%). However, the collection figures have begun to pick up in recent months, (the shortfall to last year at 30th September was 3.3%) and it is hoped that this will continue. The improvement in collection of prior year arrears also suggests that greater amounts can be recovered after the end of the current financial year.
- 6.1.7 The overall collectable debit fluctuates during the course of the financial year (and after), largely due to changes in the number of single person households (which receive a 25% discount) and empty properties, as well as valuation reductions due to appeals. The total debit rose during the course of the 93/94 year, but fell in every subsequent year (due to additional exemptions and discounts for earlier years debits). The debit has risen during the course of 2003/04, but it is still considered prudent to make some allowance for some reduction to re-occur when setting the tax base for 2004/05.
- 6.1.8 Whilst remaining arrears will relate to the most persistent non-payers, it is anticipated that the bulk of the budget requirement will eventually be collected for recent years. However, on past and current patterns of collection, an eventual collection level of 97.5% seems the best that can be expected. We have yet to achieve this figure for any year, although collection is of course still continuing. It is therefore recommended that the tax base for 2004/05 be set at 97.5%, the maximum level which is seen as sustainable.
- 6.1.9 If an over-optimistic assumption of the achievable collection rate is made, at some later stage a deficit in the collection fund will have to be declared, resulting in the need to increase the level of Council Tax in that year. Largely due to the high assumptions used in previous years (see 6.1.4.), a deficit of

£1.5m was recommended to the Executive Committee on 7th January 2004, when it made its statutory annual decision on the position of the Collection Fund. The Council's external auditors have paid close attention to collection assumptions in the past, and would be unlikely to accept an over-optimistic assumption for 2004/05.

6.2 Discounts for second homes and long-term empty homes

- 6.2.1 Local authorities now have the power to reduce the discount for second and long term empty homes from 50% to 10%. For second and furnished long-term empty properties, the Council can keep the additional income raised (shared with the GLA as preceptor). For long term empty unfurnished homes, the discount can be reduced to zero, but government grant will be reduced accordingly (except in 2004/05), by a notional amount per property. The numbers of properties involved are shown in Appendix 2.
- 6.2.2 One of the aims of reducing the discount on these properties is to encourage owners of empty properties to bring them back in to occupation earlier, thereby increasing the stock of available housing. This would be particularly beneficial in a borough such as Brent, where the demand for housing is high and increasing, and homelessness is a problem. One disadvantage of reducing the discount for furnished properties only, is that it would give an incentive to owners to remove furniture, thereby making it harder to bring the properties back in to occupation.
- 6.2.3 The total number of Band D equivalent properties involved is 3,192. If the discount on all these were reduced to 10%, the addition to the taxbase figure of 93,742 as per the return to the ODPM, would be 1,277 (the 3,192 multiplied by the 40% reduction in the discount). This would bring the total Band D figure to 95,019.
- 6.2.4 The potential additional tax raised by reducing the discount on these properties to 10% would depend on several factors. The first would be the likely collection rate for this type of property. Collection profiles show a relatively high collection at present, although the charge is currently only 50%. Any additional amounts would have to be shared with the GLA as preceptor, and the amount payable to levying bodies is also dependant on the tax base. If Brent's tax base rose whilst other authorities figure did not, the levies on Brent would rise accordingly (the GLA precept is a fixed amount multiplied by the taxbase figure, so the additional amount which will be payable to the GLA can be calculated more accurately). Given these uncertainties it is estimated that the additional collectable income attributable to Brent would be in the region of £840,000 to £940,000. In addition, for the 2004/05 year only, the government will allow authorities to keep the additional revenue from the long-term empty unfurnished properties. This will add approximately an extra £250,000 in 2004/05, bringing the net additional potential income to between £1.09m and £1.19m.

6.3 Summary

6.3.1 We feel that with improvements in collection measures as the new contractor becomes established, the collection rate can eventually reach a high level for 2003/04. It is the Director of Finance's advice to maintain the figure at 97.5% when setting the tax base for 2004/05.

6.3.2 In setting the headline Band D Council Tax figure, the Government assumes a 100% collection rate. Each 1% allowed for non-collection adds around £7.60 to the Council Tax (Brent Band D at 2003/04 levels) after allowing for reduced payments to the GLA and levying bodies. As the same percentage collection assumption is proposed as for last year, this would have no effect when comparing the year on year figures.

6.3.3 The approved tax base figure has a direct impact on the amount paid to the Greater London Authority, and to the levying bodies, (the West London Waste Authority, Environment Agency, London Pensions Fund Authority and Lee Valley Regional Park). The higher the tax base figure, the larger is the levy payable by Brent. The GLA precept is based on a Band D amount charged London-wide, with the total precept being this Band D figure multiplied by the taxbase. The levies are a sum calculated for each authority, based on taxbase figures. Based on the precept for 2003/04, a change of 0.5% on the tax base would alter Brent's contribution to the GLA by £102,000, and to the levying bodies by £37,000. A 0.5% change would alter the assumed figure to be collected from Council Tax by £488,000 based on the 2003/04 Band D charge for Brent. If the allowance for non-collection were increased to 3% (i.e. the tax base was set on a 97% collection rate) the net effect on Brent's budget would be £349,000, being the £488,000 less the reduced contributions to the GLA and levying bodies. An increase in Band D Council Tax of £3.80 would be required to make up this shortfall.

6.3.4 The final step is the calculation of the Council Tax Base in setting the 2003/04 Tax, which must be agreed at this meeting. This involves multiplying the figure returned to the ODPM by the Collection Rate, as follows:

$$93,742 \times 97.5\% = 91,398$$

This compares to the figure of 90,748 set for 2003/04.

6.3.5 To this must be added the effect of reducing the discount on the empty homes from 50% to 10%. This would add a further 1,277 Band D equivalent properties. The final taxbase calculation would therefore be as follows

$$93,742 + 1,277 = 95,019 \text{ Band D equivalent}$$

$$\mathbf{95,019 \times 97.5\% = 92,643}$$

7. BACKGROUND INFORMATION

Section 35 (5) of the Local Government Finance Act 1992.

The Local Authorities (Calculation of Council Tax Base) Regulations 1992.

Council Tax Valuation List.

Anyone wishing to inspect the above documents should contact David Huberman, Finance Manager, Brent Financial Services, Brent Town Hall, Forty Lane, Wembley, Middlesex HA9 9HD. Telephone 0208-937-1478.

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