

Meeting:	Cabinet
Date:	17 January 2008
Subject:	Council Tax Base 2008-09 and Collection Fund
Key Decision:	Yes
Responsible Officer:	Myfanwy Barrett (Corporate Director of Finance)
Portfolio Holder:	Councillor David Ashton (Portfolio Holder for Finance and Portfolio Co-ordination)
Exempt	No
Enclosures	Appendix 1: Calculation of Council Tax Base 2008-2009

SECTION 1: SUMMARY AND RECOMMENDATIONS

This report sets out the calculation of the Council Tax Base for 2008-2009 and the estimated financial position on the Collection Fund as at 31 March 2008.

Recommendations:

Cabinet is asked to:

- (a) Agree that the band D equivalent number of taxable properties is calculated as shown in accordance with the Government regulations;
- (b) Agree the provision for uncollectable amounts of Council Tax for 2008-2009 at 1.5% producing an expected collection rate of 98.5%;
- (c) Agree, subject to (a) and (b) above, a Council Tax Base for 2008-2009 of 85,466.5 Band D equivalent properties (being 86,768 x 98.5%), allowing for payment in lieu of Ministry of Defence properties;
- (d) Note an estimated deficit of £1,735,592 on the Collection Fund as at 31 March 2008 of which £1,365,043 is the Harrow share;
- (e) Agree that an amount of £1,365,043 be transferred from the General Fund in 2008-2009 and
- (f) Agree the revised bad debt percentage rates.

Reason:

To report to Cabinet on the Council's statutory obligation to set the Council Tax Base for 2008-2009 and make an estimate of the surplus or deficit on the Collection Fund by 15 January 2008. Approval to the recommendations set out is a major part of the annual budget review process. If the recommendations are not approved statutory requirements will not met.

SECTION 2: REPORT

1. This report covers both the Council Tax Base calculation for 2008-2009 and the estimate of the 31 March 2008 position of the Collection Fund.
2. The Collection Fund incurred a £2m deficit at the end of 2006-2007 and as part of the management of the Collection Fund a study was carried out recently on behalf of the Council by the IRRV to consider relevant issues and propose changes. The study concluded that:
 - The Collection Fund, into which the billing authority pays its Council Tax collection, should be managed so as far as possible to attain a nil balance at year-end to ensure that the actual sums collected are sufficient to meet the demands on the Fund by Harrow and the GLA;
 - Collection Fund management requires prudent decisions to be made in relation to the factors that affect the outcome performance of the Fund. In practice no authority can be absolutely precise but the year-end balance should be as small as possible, preferably with a small surplus;
 - The Government recognises that no billing authority can collect every pound of Council Tax and that an element of collection will continue after the relevant year. The legislation provides for non-collection to be compensated for by an element within the Council Tax Base itself;
 - The Council Tax in 2006-2007 and in 2007-2008, although set at a prudent level, was too low to compensate for the cumulative non-collection element. The contributory factors to the end-of-year deficit have been partly caused by factors in relation to the estimates of Council Tax yield, additional allowance made at year-end for bad debts to ensure adequate on-going provision and the process for estimating of the year-end balance on the Collection Fund;
 - In respect of 2007-2008 Harrow had recognised that the Council Tax base was too high and acted by reducing the collection rate used in the Tax Base from 99% to 98.5%. This decision will help to deliver a reduced year-end deficit at 31 March 2008 but it will not eliminate that deficit;
 - The study proposed a more robust approach to the year-end estimating of the Collection Fund balance and bad debts provision. This has been actioned.
 - Growth in the property base this year will also help to reduce the effect of the estimated year-end deficit. Whilst property base growth may assist this year it should not be over-estimated in the Council Tax Base for next year given that the property market is entering a period of uncertainty. This approach, together with professional judgment on Collection Fund accounting should enable the Fund to be effectively managed leading to a future nil balance or small surplus;

- The estimate of the year-end Collection Fund surplus or deficit should be made on 15 January and not before that date. The estimate is one of the elements in the formula for the setting of the Council Tax for the forthcoming year but does not form part of the authority's statutory Budget Requirement;
 - There is no prescribed format for the calculation of the estimated balance on the Collection Fund. It is a technical calculation using the latest information available in respect of the gross debit for the current year (including prior year adjustments), arrears collection and the adequacy of the bad debt provision. Proposals by the study for the calculation mirror current processes but which have now been reinforced.
3. As noted above and within the following sections action has been taken, or reinforced, to effectively manage the Collection Fund issues.

Council Tax Base calculation 2008-2009

Introduction

4. The Local Government Finance Act 1992, as amended by the Local Government Act 2003, requires the Authority to calculate its Council Tax Base for 2008-2009 and pass this information by 31 January 2008 to precepting authorities. The Tax Base must be set between the 1 December and 31 January.
5. The Council's Tax Base has been calculated, according to the relevant procedures and guidance for 2008-2009, at 85,466.5 net properties. The Tax Base has two parts:
- (a) The number of taxable properties shown as 'band D equivalents' and
 - (b) The expected collection rate for the year.
6. The calculation method is set out in the Local Authorities (Calculation of Council Tax Base) Regulations 1992, as amended. The regulations require that calculations must be shown for each tax band as well as a total for all bands. The detailed calculation of the band D equivalent properties is shown at Appendix 1. For calculating the Tax Base, (and setting the Council Tax) properties in each of the eight valuation bands are given different weightings. These weightings are shown as a proportion of the band D value. These are shown below:

Band	A	B	C	D	E	F	G	H
Weighting	6/9	7/9	8/9	1	11/9	13/9	15/9	2

7. The Regulations state that the calculation of the Tax Base must be based on the Valuation list produced by the Listing Officer of the Inland Revenue as it stands on 30 November in the year preceding that for which the relevant amount is calculated (i.e. at 30 November 2007 for the financial year 2008-2009). It must show actual numbers of properties at that date and allow for the effects of discounts and exemptions. It must also show likely changes to bands, new properties, properties taken off the valuation list and likely changes to

discounts, empty properties and exemptions for 2008-2009. The Tax Base shows new properties being built in Harrow (including in-fill development and conversions).

8. For 2007-2008 the percentage collection rate used was 98.5%. For 2008-2009 a budgeted collection rate of 98.5% is still recommended. The expected collection rate is the percentage of Council Tax to be collected after estimating uncollectable amounts. The proposal in the MTFs strategy is to reduce the target collection rate built into the Tax Base calculation by 0.5% each year. This will result in a collection rate of 98% in 2009-2010, and 97.5% in 2010-2011.
9. This does not mean that collection efforts will stop once the budgeted collection levels have been reached, or that eventual losses will necessarily be 1.5% to 2.5%. It is, however, essential that an adequate non-collection allowance be made each year.

Legal Implications

10. The Council must legally agree the Council Tax Base for 2008-2009 by 31 January 2008.
11. Section 33 (1) Local Government Finance Act 1992 imposes a duty on Harrow, as a billing authority, to calculate its Council Tax by applying a formula laid down in that Section. The formula involves a figure for the Council Tax Base for the year, which must itself be calculated.
12. The Local Authority (Calculation of Council Tax Base) Regulations 1992 require a billing authority to use a given formula to calculate the Council Tax Base. This is the formula set out and followed in the appendix to this report.
13. Sections 33, and various statutory instruments, also impose a duty on the Council to calculate the Council Tax Base within a prescribed period which is laid down in the Regulations as between 1 of December and 31 of January.
14. Section 67 Local Government Act 1992 was amended by section 84 of the Local Government Act 2003 to enable the full Council to delegate the power to set the tax base to the Executive. The constitution was duly amended at full Council on 20 October 2005.

Estimated Collection Fund Surplus / Deficit at 31 March 2008

Introduction

15. The Council, as a billing authority for the Council Tax, is required to keep a special fund known as the Collection Fund. The Fund is credited with the amount of Council Tax and Non Domestic Rates (NDR) it collects. The payments out of the Fund are in respect of Harrow's own local demand (i.e. General Fund expenditure net of Revenue Support Grant and share of NDR)

and to the National NDR Pool, and the precept issued by the Greater London Authority (GLA).

16. If a surplus, or deficit, remains in the Collection Fund at the year-end it is subsequently borne by, or distributed to, the billing authority (i.e. Harrow) and the preceptor (i.e. GLA). Billing authorities are required to estimate the expected Collection Fund surplus, or deficit, for the year to 31 March in order that the sum can be taken into account by billing authorities and preceptors in calculating the amounts of Council Tax for the coming year. The difference between the estimate and the actual surplus, or deficit, at 31 March will be taken into account in the following financial year. Approval of the Council's share of the surplus or deficit is a major part of the annual budget review process. If the recommendations are not approved statutory requirements will not met.
17. The estimated financial position on the Collection Fund at 31 March 2008 is set out below.

	£
Collection Fund Deficit at 31 March 2007	2,070,848
Transfer in respect of estimated deficit at 31 March 2007	-444,470
Increase in collectable debit in 2007-2008	-292,335
Increase in provision for non-collection (BDP)	401,549
Estimated deficit at 31 March 2008	1,735,592

18. There are three factors in the calculation – any surplus or deficit brought forward from the previous financial year, the change in the collectable debit, and changes to the appropriate level of bad debt provision (BDP). The estimated deficit set out in the above table includes both Harrow's and the GLA's share.
- The Collection Fund deficit at the end of 2006-2007 was £2.071m. This was £1.626m higher than the anticipated deficit of £444,470 when the 2007-2008 budget and Council Tax was set;
 - Due to additional properties being entered onto the valuation list, and improved control of provision of discounts and exemptions, the amount to be collected from Council Tax has increased by £0.292m against the budgeted requirement of £120.8m for 2007-2008;
 - Bad debt provisions for non-collection have been rigorously reviewed in the past two years. Identified previous under-provision was reflected in the 2006-2007 accounts and contributed to last year's deficit. Together with the write-offs that have been actioned this area of uncertainty in the Collection Fund has been dealt with. The table above sets out additional BDP now required.

- As part of the examination of BDP requirements the percentage of debt to be provided for within BDP has also been reviewed and the following changes are recommended:

	Current	Proposed
	%	%
Previous year debt	54	43
Debt over 2 years	73	54
Debt over 3 years	86	73
Debt over 4 years	100	86
Debt over 5 years	100	100

19. The Regulations provide for the Council's share of the estimated deficit i.e. £1,365,043 (allocated pro rata to the Council's call on the Collection Fund in 2007-2008) to be charged to the General Fund in 2008-2009. This action, together with the provision of adequate BDP and amendments to collection rate percentages, as set out above, will manage and eliminate the deficit. The management of the Collection Fund will be kept under review and it will be reconciled on a quarterly basis as part of the budget monitoring process.
20. The sum of £1,365,043 will affect the local demand on the Collection Fund and will be taken into account in the calculation of the 2008-2009 Council Tax. The remaining sum of £370,549 is attributable to the GLA.

Legal Implications

21. The Council is required by The Local Authorities (Funds) (England) Regulations 1992 in exercise of the powers under Section 99(3) of the Local Government Finance Act 1988 to make an estimate by 15 January of the amount of the deficit or surplus on the Collection Fund as at 31 March 2008.

Financial Implications

22. This is a report from the Corporate Director of Finance and deals with Financial matters throughout.

Performance Issues

23. There are no direct implications for individual performance indicators as the Collection Fund does not form part of the General Fund finance of the Council.

SECTION 3: STATUTORY OFFICER CLEARANCE

Name: Myfanwy Barrett



Chief Finance Officer

Date: 3 January 2008

Name: Helen White



On behalf of the Monitoring Officer

Date: 3 January 2008

SECTION 4: PERFORMANCE OFFICER CLEARANCE

Name: Tom Whiting



Divisional Director (Strategy & Improvement)

Date: 3 January 2008

SECTION 5: CONTACT DETAILS AND BACKGROUND PAPERS

Contact: Council Tax Base:

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Collection Fund:

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Background Papers:

- The Local Authorities (Calculation of Council Tax Base) Regulations 1992, SI No.612 as amended, SI No.3012 of 2003, LGFA 1992, LGA 2003, Council resolutions of meetings held 16/12/03 & 20/10/2005.
- The Local Authorities (Funds) (England) Regulations 1992
- Statement of Accounts 2006-2007