

<b>Item No.</b> 7.1	<b>Classification:</b> Open	<b>Date:</b> 28th January 2004	<b>Meeting Name:</b> Council Assembly
<b>Report title:</b>		The Council Tax Base for 2004/05	
<b>Ward(s) or groups affected:</b>		The Whole Borough	
<b>From:</b>		Chief Finance Officer	

## RECOMMENDATIONS

1. That the Council Tax collection rate for 2004/2005 be estimated at 97%.
2. That the formal resolution and calculations shown in Appendices D to H be approved and the Council Tax Base for 2004/2005 be set at:

Number of band D  
equivalent properties

For the parish of St. Mary Newington	12,671.16
For the parish of St. Saviour's	1,019.42
For the whole of the borough excluding the parishes of St. Mary Newington and St. Saviour's	<u>72,871.35</u>
For the whole borough	86,561.93

3. That the "second homes discount" be reduced to the statutory minimum of 10% with effect from 1<sup>st</sup> April 2004. (Note the figures in recommendation 2 will be amended if Members agree this recommendation)
4. That the long term void Council Tax discount be abolished with effect from 1<sup>st</sup> April 2004. (Note the figures in recommendation 2 will be amended if Members agree this recommendation)

## BACKGROUND

5. Regulations require the Council to calculate its tax base for the purposes of setting the level of Council Tax and to notify the Greater London Authority by 31<sup>st</sup> January 2004.
6. The Council Tax base for any area is the measure of its tax-raising capacity. The Council calculates its tax base by multiplying the relevant number of Band D equivalent properties in each tax band by the estimated collection rate for Council Tax. The number of properties in each band is calculated from information supplied by the Valuation Officer of the Board of Inland Revenue, and Liberata, the Revenues and Benefit contractor.
7. Earmarked Income is also available from Trust Funds, which can reduce the Council Tax in the former parishes of St. Mary Newington and St. Saviour's. Further calculations have to be made for these specific areas.

8. This report sets out the statutory information that Members need in order to set the Council's Council Tax Base for 2004/05. A further report will be presented in February 2004 setting out the level of Council Tax needed to meet the Council's expenditure for the year.
9. The report also sets out new discretionary powers that the Council now has to vary the discount rates for "Second Homes" and "Long-term Voids".

### **SETTING THE COUNCIL TAX BASE – "THE COLLECTION RATE".**

#### *Current Collection Rate*

10. As Members are aware, until recently, the Council had a poor record of Council Tax collection. The national key performance figures show that for in year collections the Council's performance has remained in the lowest quartile. The consequential deficits, which have accumulated on the Council's statutory "Collection Fund Account", have meant significant resources have been used to finance the deficit.
11. However, over the last three years there has been a substantial improvement in collection rates. This has been consolidated with the renewed Liberata contract, which introduced a pro-active client relationship based on a partnership approach to collection methods and procedures. In 1999/2000 the "in year" collection rate was some 80%; by 2002/03 this had risen to 92% and this should be exceeded for 2003/04. It is currently predicted that the overall Collection Rates for both 2002/03 and 2003/04 should be achieved. Collection of arrears can take as long as 3 to 4 years after the end of the tax year. It is therefore essential that Liberata's performance continues to improve and that they pay full attention to both current and arrears collections. The performance targets in their contract take these issues into account.
12. Liberata has succeeded in collecting more Council Tax arrears than ever before. Consequently, the "Collection Fund Account" is now forecast to be broadly in balance by 31<sup>st</sup> March 2004 and this will continue into 2004/05. However, Members should be aware that the Council Tax is still a very difficult one to collect. Whilst the present levels, and future expectations, are above those achieved in the past it will need a lot of continuing hard work to sustain the improvement.
13. Southwark's target Collection rate is above the Inner London average of 94.7%. (see Appendix B) Currently available information suggests that in only one of the other 10 Inner London Boroughs will the collection rate be higher than that recommended for Southwark. Those that have a lower collection rate include some, which have been generally assessed by the Comprehensive Performance Assessment regime (the CPA) as "excellent" performers. Members should be aware that setting a collection rate of 97%, although in the CFO's opinion an appropriate target to set, is one that carries a relatively high risk. If it is not achieved there will be a resulting cost falling on the General Fund. Each 1% by which this target rate is under-collected will cost the Council some £350,000 in under achieved revenue.
14. The main reasons for not reaching target collection levels in previous years have been reported extensively and were set out in the Best Value Review of Revenues reported to Committee in June 2001 and in updated reports presented since then. In summary these were as follows:

- (a) the gradual reduction in the level of benefit awarded in relation to the collectable debt and the consequential requirement to collect more in cash;
  - (b) a general community attitude of paying Council Tax in cash rather than through Direct Debit and Standing Order; and
  - (c) a 'non-payment' culture aggravated in earlier years by a lack of paying debts as early in the process as possible.
15. These issues are now being tackled as a part of the action plan already agreed by the Council.

#### *Improving Council Tax Collection*

16. The Best Value review highlighted some options for improving collection. Further work has since been done on both in-year and arrears collection. In January 2003 an independent report was completed detailing areas for improvement. This resulted in several key initiatives including promoting direct debit as a key payment option as opposed to standing order, increasing alternative recovery methods such as attachment of benefits and earnings and changing the frequency of the recovery profile. Further improvements in processing times for Council Tax Benefit claims have also had an impact on the in-year Council Tax collection rates.
17. A further best practice study has commenced reviewing existing procedures with a view to reengineering the overall collection process for significant improvement. The review being undertaken by Liberata will be available for discussion with the client and an anticipated action plan will be implemented over the next financial year.

#### *Collection Level 2004/05*

18. The 'in year' collection target for 2003/04 is set at 92.5%, with the potential for Liberata to achieve added incentives should performance reach increased performance levels. Targets have also been set for the collection of arrears, which expect a minimum cash target of 3% of the arrears owing to the Council to be achieved by the end of the financial year.
19. Monitoring of collection performance in the current financial year indicate that Liberata are on course to meet both the in year target and the 3% arrears target.
20. The total overall collection rate set by Members for 2003/04 was 96.5%. The anticipated final collection levels for the 2003/04 tax are currently expected to broadly meet this target. The CFO considers that Liberata can succeed in maintaining this performance level – particularly as they are also reaching their targets on direct debit mandates and Council Tax Benefit administration. In these circumstances it is now possible for Members to set a very challenging target of 97% for the 2004/05 tax year.

#### *Conclusion*

21. In making this decision Council Assembly is reminded that the Council has a history of poor performance in this area. The level of Council Tax for a Band D property has increased substantially over time (up 41% since 1996/97). Over this period the arrears owing to the Council rose by 50% from £14 million in 1997 to

£21 million in 2001. The increasing arrears, together with rather optimistic targets for the Collection Rate, have led to deficits on the Council's Collection Fund – which peaked in 2001 at some £11 million. The Chief Finance Officer is confident that the processes are now in place to prevent this position from recurring. However, there is no doubt that recent high profile adverse publicity about Council Tax will make collection even more difficult than it has been in the past. The Collection Rate recommended in this report will be present a challenge for Council Officers to achieve. Its only if they are successful that this level of Collection Rate can be sustained into future years.

## **SECOND HOMES AND LONG TERM EMPTY HOMES DISCOUNTS**

22. The Local Government Finance Act 2003 received Royal Assent on 18th November 2003. Part 6 powers take effect from 1<sup>st</sup> April 2004 and will affect the Council's 2004-2005 budget and Tax Base.
23. With effect from April 2004, the Council is able to change the percentage discount granted in respect of Second and Long Term empty homes. For Second Homes the present statutory discount is 50%. Under the Act this can be reduced to any percentage down to a minimum of 10%. The current discount for Long-term Empty properties is also 50%. The new minimum the Council can approve is zero percent.
24. In relation to Second Homes, currently where the taxpayer has their main residence elsewhere i.e. the property is nobody's' sole or main residence, a discount of 50% is awarded with no exemption period. For 2003-2004 this cost some £725,000 in "lost" revenue for 1,548 accounts (see Appendix for a detailed analysis over Council Tax Bands).
25. With respect to Long Term empty homes, a discount of 50% is granted and currently during 2003-2004 this amounts to some £1.1 million on 2,269 homes. Where the premises are unfurnished (or substantially unfurnished), an initial exemption period of 6 months is given before the charge at 50% commences, there is no equivalent exemption if the property is furnished.

### *Key issues for consideration*

26. For Second Homes, if the Council were to reduced the discount, it would be able to retain the additional income generated during 2004-2005. For comparison, during 2003-2004 this would have generated some £725,000 additional income. (From this 22% would go to the GLA, leaving 78% or £578,000 available to the Council. The reduction in the discount rate for "second homes" will produce additional income equal to that reduction. For that reason all of the additional impact would be reflected in an increase in the Council Tax Base for 2004/05 but after that the change will be offset by a reduction in Formula Grant.
27. A reduction in the discount on long-term empty properties will also have a direct financial advantage for the Council. The Council will retain the extra income generated for 2004/05 but after that the change will be offset by a reduction in Formula Grant. There may, however, be additional costs falling on the Housing Revenue Account in respect of Housing properties unoccupied for more than 6 months. However, during 2003-2004, this amounted to less than £80,000 in relation to some 300 properties.
28. In addition to the direct financial benefit to the Council from the removal of the

discount for Long-Term empty homes, it should encourage owners to let their properties rather than leave them empty. The reduction of long term empty discounts to zero will encourage landlords to occupy their properties with tenants and will therefore reduce long term empty properties in the borough. For this reason it is particularly difficult to assess the impact on the Council Tax Base that a revised discount rate will have for 2004/05.

29. Of the 2,300 properties for which the discount applies 40% have been void for over 18 months. The remaining 60% (1,500 properties) have been void since 1<sup>st</sup> April 2003. It is clearly impossible to forecast what the owners of the properties will do once the discounts have been removed. However, it is prudent to assume that many of them will apply to the Inland Revenue for them to be declared “uninhabitable”, which would temporarily remove them from “taxation”. The figures set out in the following tables assume that in overall terms some 33% of the income lost through discounts will be “gained” by the Council for 2004/05. Any variation on this figure will be reflected (either positively or negatively) through the 2005/06 Collection Rate calculation.

*Summary of the Financial Position re Second Homes and Voids*

30. If Council Assembly agree the recommendations set out in this report the direct financial can be summarised as follows

	Total Gain £'000s	Southwark Share £'000s	GLA Share £'000s
Increased Income by reducing Second Homes Discounts to 10%	725	578	147
Increased Income by reducing discount on long-term empty properties to zero	1,150	900	250
Less reduction “no income gain for the Council – see section 28)	(750)	(600)	(150)
<b>TOTALS</b>	<b>1,125</b>	<b>878</b>	<b>247</b>

31. If Council Assembly were to agree to the recommendations in this report the Council Tax Base will increase as set out in the following Table.

	Council Tax Base £
Current Council Tax Base (at a 97% Collection Rate)	86,561.93
Additional Base if recommendations are agreed	1,052.72
<b>Revised 2004/05 Council Tax Base</b>	<b>87,614.67</b>

32. The Council's Formula Grant would have been reduced by some £700,000 if the revised Tax Base were in place for 2004/05. The Council could expect a similar reduction to be effected for 2005/06. The on-going advantage to the Council is probably less than £200,000 a year.

*Summary and Conclusion*

33. It is for Members to decide what changes if any they wish to make to the Discount rate in relation to these issues. The Council is able to set any rate between 50% and 10% for Second Homes and between 50% and zero for long-term empty properties. There are distinct direct financial advantages for the Council in 2004/95 if they were to decide to make the changes recommended in this report. For 2005/06 onwards, although the direct gain diminishes significantly, there should be indirect gains through Regeneration which will also bring advantages in the future.

**BACKGROUND DOCUMENTS**

<b>Background Papers</b>	<b>Held At</b>	<b>Contact</b>
CTB (1)	FMS (Financial Accounting and Reporting Section)	Dennis Callaghan - FMS
Monitoring schedules	Revenues and Benefits Client Unit	Dominic Cain - FMS

**AUDIT TRIAL**

<b>Lead Officer</b>	Keith Brown, Chief Finance Officer	
<b>Report Author</b>	Dominic Cain, Revenues and Benefits Manager	
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<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments Included</b>
Borough Solicitor & Secretary	Yes	No
Chief Finance Officer	Yes	Yes
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