Leicestershire County Council

# CABINET – 23 JUNE 2017

# DISTRICT COUNCIL COLLECTION OF COUNCIL TAX

# REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

## PART A

### Purpose of the Report

1. The purpose of this report is to set out the council tax collection performance of Leicestershire District Councils compared to other county areas and to seek the Cabinet's agreement to a review of council tax collection and forecasting processes carried out by District Councils with a view to improving these from 2018 onwards for the benefit of all authorities.

### Recommendations

2. The Cabinet is recommended to:

   a) Note that the County Council's most significant income stream is council tax and, in the light of increased financial pressures, the need for the County Council to maximise this income to support the future provision of services in the area and reduce the need for savings;

   b) Note that District Councils' collection of council tax is below the national average for county areas and that their forecasting has also been poor;

   c) Agree that a review of District Council council tax collection and forecasting processes is necessary as soon as possible, and that this matter be brought to the attention of District Council Leaders requesting the full co-operation of their Councils in the review.

### Reasons for Recommendations

3. To enable the County Council to maximise the income it receives in council tax and, in the process, minimise the number of Leicestershire residents who avoid paying their fair share of council tax.

### Timetable for Decision (including Scrutiny)

4. To ensure that extra council tax income can be included in the Medium Term Financial Strategy (MTFS) when it is refreshed in February 2018 the review

would need to start soon. The Cabinet will be asked to approve the draft MTFS for consultation in December 2017. All Overview and Scrutiny Committees and the Scrutiny Commission will consider the MTFS in January 2018 during the consultation period, and the Cabinet will then be asked to make a final recommendation to the County Council in February 2018.

**Policy Framework and Previous Decisions**

5. The Medium Term Financial Strategy for 2017/18 to 2020/21 was approved by the County Council in February 2017. The MTFS included extra income of £1.3m arising from the review with the prospect that in reality, extra income would be far greater, thus reducing the need for savings.

**Resource Implications**

6. The financial position faced by the County Council is both serious and extremely challenging. This is particularly so for a low-funded authority such as Leicestershire as the scope for further efficiency savings is limited.

7. If District Councils improved their council tax collection rate to the average of the upper quartile of district councils nationally (98.85%), extra income of £3.1m would be generated. This would increase the income of not only the County Council but also the Districts Councils, the Police and the Fire and Rescue Service as detailed in the table below. It is worth noting that this figure does not include any improvements that could be made to processes and policies relating to discounts and exemptions such as the Single Person Discount.

| | Additional income £m |
|---|---|
| County Council | 2.2 |
| District Councils | 0.4 |
| Police | 0.4 |
| Fire | 0.1 |
| Total | 3.1 |

8. In addition to this ongoing extra income there could be a circa £3.2m benefit from more accurate forecasting by the District Councils which, if achieved, would result in a further increase in income for each authority as set out below:

| | Additional income £m |
|---|---|
| County Council | 2.3 |
| District Councils | 0.4 |
| Police | 0.4 |
| Fire | 0.1 |
| Total | 3.2 |

9. In total the effect on the County Council's budget of such improvement by the District Councils could be to increase its income by £4.5m per annum.

10. This extra money generated would be purely as a result of both better forecasting and more effective collection and not from increasing the level of council tax.

11. The Director of Law and Governance has been consulted on the content of this report.

**Circulation under the Local Issues Alert Procedure**

12. None.

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## PART B

### Background

13. The County Council is in an extremely difficult financial position and it is seeking to maximise cost reductions, efficiencies and income. By far the largest component of the County Council's income comes from council tax. In 2017/18 the County Council is expected to generate 77% (£268m) of its funding from council tax. Primarily due to the elimination of revenue support grant this will increase to 85% (£305m) by 2020/21.

14. There is little if any prospect of austerity measures coming to an end within the medium term and it is vitally important therefore that council tax income is optimised by having the right policies and procedures in place to secure the highest possible tax collection rates. For this to be achieved the Council relies on District Council revenue services operating as effectively and efficiently as possible. Having seven different collection authorities is neither efficient nor effective but that is the current position.

15. There is evidence, including recent examples of errors and poor forecasting, which indicate that improvements in performance could be made. Collection rates for the County are below average, despite relatively low levels of deprivation. The table below shows the additional income that would be received if collection rates were improved in line with other county areas.

| | Leicestershire | Mean for all English counties | Upper quartile of District Councils | Maximum for all English authorities |
|---|---|---|---|---|
| Council tax collection rate | 97.90% | 97.99% | 98.85% | 99.51% |
| Additional income | - | £0.3m | £3.1m | £5.9m |

16. The performance for individual districts varies. The table below sets out performance by district.

| | |
|---|---|
| Blaby | 97.95% |
| Charnwood | 97.69% |
| Harborough | 98.42% |
| Hinckley and Bosworth | 97.73% |
| Melton | 98.24% |
| North West Leicestershire | 97.43% |
| Oadby and Wigston | 98.34% |
| | |
| Average | 97.90% |

17. In recent years very large and increasing collection fund surpluses have been experienced. This indicates that there has been a significant underestimation

by District Councils of the level of council tax they expect to receive; primarily because estimates for housing growth have not been included fully in the tax base forecasts.

| | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|
| Estimate of surplus | £3.3m | £5.2m | £7.8m |

18. This is serious for all of the precepting authorities as it means they cannot take into account such additional funds when preparing their yearly budget proposals and therefore service cuts have been made earlier than needed and resources are not available to fund extra services arising from the increases in population. The distribution of the 2016/17 surplus for each authority is -

| | £ million |
|---|---|
| District Councils | 1.0 |
| Police Authority | 0.9 |
| Combined Fire Authority | 0.3 |
| County Council | 5.6 |
| **Total** | **7.8** |

19. In addition, a number of District Councils have made errors in collection fund forecasts that in some cases have delayed the council tax income received by the preceptors.

20. Each review of the Single Person Discount produces significant savings which indicate that controls granting this discount could be improved. Following the 2014 review £0.9m of discounts were removed from all District Councils excluding Charnwood who did not take part in the review.

21. Although the County Council is the main beneficiary of council tax the amounts received by other organisations is significant. Leicestershire Police and the Leicestershire Fire and Rescue Service both support the review.

22. The County Council is prepared to contribute to the cost of the review and it is recommended that the Leicestershire Treasurers Association (on which the treasurers from all District Councils, the County Council and the Police and Fire and Rescue Service are represented) oversees the review. The advantage of undertaking a county-wide review is that dedicated resources can be justified and comparisons in practice between authorities can act as a starting point for improvements.

23. The proposed review has been discussed at officer level, but all District Councils have rejected the need for this on the basis they collect council tax effectively. This is despite significant evidence to the contrary.

24. In part, the district view probably reflects their narrow perspective, i.e. they have little to gain from a review as most council tax goes to the preceptors. In taking such a position they are forgetting they have a responsibility to collect council tax effectively for all beneficiaries. The split of responsibilities under the two-tier system means that preceptors have little power to force such a review. It is worth noting that the County Council has offered to pay for the review.

**Scope of the Review**

25. Examples of the activity envisaged under the following three themes, which could make up the review, are listed below:

Policy and Procedures

- Use of fraud deterrents such as fines and prosecutions.
- Comparison of the policy for discounts and exceptions within and outside of Leicestershire.

Collection

- Review council tax collection operating model and processes, including debt recovery.
- Approach to valuation changes and appeals.
- Application of discounts and exceptions to minimise fraud and error.
- Approach to following up potential fraud.

Planning

- Review the forecasting techniques used to calculate the tax base.

**Business Rates**

26. Business rate collection rates by Leicestershire District Councils (98.65%) are just above the average for all districts (98.46%) but fall short of the district upper quartile average (99.30%). If the upper quartile rate could be achieved it would produce around £1.65m additional income. Currently 50% would go to the Government, the Districts would receive £650,000, the County Council £150,000 and the Fire Authority around £20,000. There are likely to be further benefits from reviewing the reliefs offered to businesses, for example, charitable reliefs that have been subject to well publicised frauds. Given that there will be greater retention of business rates in the future this is an area that may also benefit from further review.

## Equality and Human Rights Implications

27. There are no direct equality and human rights implications arising from this report.

## Background Papers

Department of Communities and Local Government council tax collection statistics – Table 6: Council Tax and non-domestic rates – collection amounts and rates, 2014-15 and 2015-16
https://www.gov.uk/government/statistics/collection-rates-for-council-tax-and-non-domestic-rates-in-england-2015-to-2016

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