

**COLLECTION FUND ARREARS**

During a final review of the 2009/10 accounts it was noticed that there was a significant variance between the level of outstanding arrears shown on the Academy system (which records all details for Council Tax and Non Domestic Rate Payers) compared to what was being recorded in Agresso (the Council's Financial Information System).

These discrepancies were being investigated at the time the accounts were being approved by Audit Committee and Standards and Governance and it was reported at both those meetings that the results of the investigation would be reported back to both Committees.

The investigation has now been completed and it has been discovered that the figures within Agresso (and hence the accounts) are incorrect. The bottom line impact of the changes that will be required mean that the collection fund surplus balance will increase by £1,852,884.54. Of this £127,998.23 relates to 2009/10 and £1,724,886.31 to prior years.

The reasons for the errors are explained in more detail in the next section, however in order to aid understanding, it is important to have an appreciation of the basics of how the collection fund is 'closed down' at the end of each year.

In simple terms, two transaction reports are produced from Academy to give the key figures for Council Tax and NDR from the system (shown for NDR in Annex 1). For the majority of these figures, there is no equivalent amount within the accounts and therefore the figures for net liability raised in the year for example are simply 'created' within Agresso by means of a single journal. In essence therefore, these figures cannot be 'wrong' as they will always reconcile exactly to what was produced by the Academy System.

The main areas where figures already exist within the accounts are for payments made by Council Tax and NDR payers and for refunds issued by the Council. In these areas, a separate reconciliation has to be produced between the payments recorded in Academy and those on Agresso. Very often there are differences in the amounts, but this usually relates to timing differences around the year end which is automatically corrected the next year.

Annex 1 shows for 2009/10 that the only differences between the Academy and Agresso figures relate to £3,269,564.86 (late refund) and £468,647.72 (deferred payments) less £28,570.00 of Costs (shown separately) total £3,709,642.58 As a double check against all of these figures a separate report is run on Academy which provides an age analysis of the total arrears on all of the individual accounts and both the Academy report in Annex 1 and the Agresso figures should reconcile back to these amounts.

Given this 'self balancing' process for the closure of the Collection Fund accounts it was not obvious where the discrepancy between the arrears figures in Agresso and Academy might have arisen and it has therefore been necessary to go back to the 2002/03 accounts and work through all of the figures from that point on.

### **Non Domestic Rates**

The investigation carried out for Non Domestic Rates revealed that the major problem relates to the closing of the 2004/05 accounts. Whilst the process outlined above was followed for 2004/05 it seems that the figures produced from Academy were spurious. In fact the bottom line arrears position showed a 'credit' of £566,819.30 (implying that we had been paid more than we were actually owed). This error is further underlined by the fact that the separate arrears report produced for that year showed a net arrears position of £1,425,666.42, which is more in line with what we would have expected.

The Agresso figures were therefore entered on the basis of the spurious report and it is principally this error which has then flowed through to the current set of accounts and needs to be corrected.

The Academy system is in effect 'self correcting' as when the figures for 2005/06 were produced they were back in line with what was expected, however the balance brought forward on Agresso was now well out of line with the stated arrears position and has been ever since.

The net impact of all the changes means that in simple terms, we have paid the Government more than we should have done and therefore an additional amount of £283,599.88 is due from them to us. However this does not mean that the Council is any better off since all NDR transactions effectively balance to zero over time anyway.

### **Council Tax**

The position for Council Tax is very different. The basic closedown process described above has been followed and there are no major issues with this.

The error in respect of Council Tax relates to the treatment of summons and liability costs and bad debt provisions against these. In simple terms, if a Council Tax payer does not pay their council tax, the Council can start proceedings against them and they are effectively charged a sum for the extra administration associated with this.

The value of the summons and liability order costs are added to the arrears position of the individual payer on Academy and increase the total amount that they owe the Council.

However these costs are not part of the collection fund, they are recorded separately in the General Fund. For the purposes of closing down the collection fund therefore all costs, arrears and income associated with summons and liability orders should be excluded.

Unfortunately since 2003/04 these items have been accounted for incorrectly and this has had 2 separate impact on the accounts :-

- Because the total arrears figure for collection fund also includes arrears for costs, a bad debt provision has been provided against these amounts in the collection fund as well as in the general fund. This is clearly double counted and should be removed from the Collection Fund. The net impact of this is to increase the collection fund balance by £452,173.30
- In allocating cash received and write offs against the summons and liability costs that have been raised, only the current years figures have been included within the accounts. However there are cash payments and write offs that relate to previous years liabilities that have not been taken into account and these amounts have therefore reduced the assume level of Council Tax arrears in the system. When an adjustment is made for these amounts it increases the level of outstanding council tax arrears, which has the impact of increasing the collection fund surplus, by £1,400,711.24

The net impact of all of these changes means that there is an additional Collection Fund surplus to be declared at the end of 2009/10 of £1,852,884.54

### **Lessons Learned**

Clearly given this position, Councillors will want to be reassured that these sorts of errors do not occur again.

In simple terms the source of both errors can be traced back to the closing of the 2003/04 and 2004/05 accounts onwards, which coincides with a change in senior finance personnel and the accounting staff responsible for the collection fund accounts.

The collection fund by it's nature is a specialist account and unless accountancy staff have several years experience in dealing with the technicalities of its operation and fully understand what is trying to be achieved then it is easy for errors to occur since there is no basis for 'sense checking' what has been done.

Current staff responsible for the collection fund are experienced in it's operation and there is also knowledge available at the senior level to sense check what has been done. Now that the figures have been corrected it is not anticipated that further problems will occur although obviously there will be additional scrutiny at a senior level when the accounts for 2010/11 are being prepared.