

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD1436

Title: To Approve Funding for a Project to Reduce the Level of Council tax Arrears in the London Borough of Islington

Executive Summary:

The London Borough of Islington has faced increasing challenges in relation to council tax collection in recent years due to the ongoing growth in its taxbase and the significant level of turnover in its population.

The Council had £24 million of council tax arrears at 1 April 2015 – of which £5.5 million (23 per cent) relates to the sums owed in respect of the GLA's Precept based on 2015-16 tax shares. The Council has approached the GLA to seek funding to enable it to undertake a project delivered by a dedicated team to reduce the level of outstanding arrears. The GLA would contribute towards the project costs in proportion to its share of council tax which reflects the benefit it would receive from any incremental revenues which would result through the sharing of future collection fund surpluses.

This Decision seeks a contribution initially up to 31 August 2016 of up to £105,000 equivalent to 23 per cent of the estimated £450,000 project costs. The proposed agreement with Islington has set a target to reduce arrears by at least £1.5 million by the end of the project – of which around £346,000 would accrue to the GLA.

Decision:

The Executive Director Resources approves up to £105,000 towards a project by the London Borough of Islington to reduce its level of council tax arrears of which £60,000 is estimated payable in respect of the 2015-16 financial year and £45,000 in 2016-17 on a pro rata basis. The costs would be charged to the Mayors Resilience Reserve initially – and recoverable through expected future collection fund surpluses declared by the borough in respect of council tax each year. The project will set a target to reduce the borough's council tax arrears by £1.5m by 31 August 2016 of which an estimated £346,000 would accrue to the GLA – more than three times the cost of the contribution in year 1.

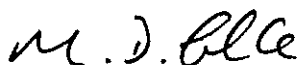
AUTHORISING DIRECTOR

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities. It has my approval.

Name: MARTIN CLARKE

Position: EXECUTIVE DIRECTOR RESOURCES

Signature:



Date:

19.11.15

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 In 2015-16 the GLA will receive an estimated £21.3 million of income through the council tax precept from taxpayers in the London Borough of Islington.
- 1.2 As a result of the significant increase in its taxbase in recent years arising from new developments, population growth and high population mobility the Borough Council has faced challenges in maximising council tax revenues and collection rates. As a result the Borough Council had a significant level of Council Tax arrears of some £24 m as at 1 April 2015. Based on the GLA's 23.1 per cent share of the council tax in 2015-16 (£295 out of £1,276) this level of arrears represents potential lost revenue to the GLA of around £5.5 million – equivalent to around one quarter of the total annual precept income from that borough.
- 1.3 The London Borough of Islington has asked the Greater London to make a contribution towards a project which will set up a dedicated team focusing on reducing the level of council tax arrears. The team would be sourced locally and employed by the Council. The project has commenced during 2015 and the GLA's funding would 12 months later with an option for extension should both parties agree. The estimated total cost is forecast to be up to £450,000 per annum.
- 1.4 The GLA would contribute 23.1 per cent of the project costs in line with 2015-16 council tax shares – equating to around £105,000. This reflects the proportion of any reduction in arrears which would accrue to it through higher collection fund surpluses declared by Islington in future years. Of this £60,000 is estimated payable in respect of the 2015-16 financial year and £45,000 in 2016-17 on a pro rata basis.
- 1.5 The project team has a target to deliver a £1.5 million reduction in arrears in the first twelve months – equating to a potential gain for the GLA of up to £346,000. Based on the expected additional revenues generated the project is therefore expected to be self financing – and potentially generate a significant surplus on the GLA's investment. For the GLA to break even on the project a reduction in arrears of around £455,000 – around one quarter of the target set.
- 1.6 This is a legitimate request as billing authorities do not explicitly receive additional funding from central government to fund the costs of council tax collection and any investment they make to improve collection rates or reduce arrears benefits their preceptors on a proportional basis. The ability of Billing authorities to meet the costs of such investment has of course become more challenging in recent years due to the impact of reductions in general government grant funding.
- 1.7 The funding requested equates to less than 2% of the GLA's share of the outstanding arrears and it is anticipated that this would be recovered in full through an increase in the collection fund surplus for council tax declared in future years each January which is available to support the Mayor's budget in the following financial year. Before releasing funding for the final four months of the proposed project the GLA would wish to be satisfied that it has delivered a material reduction in the level of arrears by 31 March 2016. The agreement with Islington will therefore require a review of progress and delivery to be undertaken after the end of the 2015-16 financial year (during April 2016) before confirming the payments for the final four months.

2. Objectives and expected outcomes

- 2.1 The proposed project focuses on reducing Islington's current level of council tax arrears which exceeded £24 m at 1 April 2015. Islington has considered three different mechanisms to recover the outstanding debt:
- Commission a supplier to collect this debt – potentially on a commission based contract with a minimum fee.
 - Sell the outstanding arrears for a percentage of the value to a private sector firm
 - Recruit staff on fixed term contracts and undertake the work in house
- 2.2 It considers that the final internal approach would be the most satisfactory as costs could be more easily fixed and controlled using staff sourced locally. This would also allow these staff to be flexibly employed to tackle other outstanding debts – albeit that the GLA's funding would only be flexibly redeployed in relation to maximising Non Domestic Rating and Crossrail BRS revenues.
- 2.3 The team created will use appropriate tracing tools to contact debtors and maximise collection through telephone and SMS contact. The staff – estimated at up to ten – have been recruited and the majority have now commenced work.
- 2.4 The annual cost of the project team and related costs is estimated at around £450,000 – with initially funding being provided for a 12 month period to 31 August 2016 with funding backdated pro rata to 1 September 2015. As the majority of the costs are staffing related the project costs can be predicted with relative certainty. Subject to Islington demonstrating that it had made significant progress towards delivering a reduction in arrears – with an interim review after eight months – the GLA would have the option to continue funding the project after the 12 months.
- 2.5 The GLA would contribute up to £105,000 in proportion to its 23 per cent share of the council tax for 2015-16 of the project cost of up to £450,000. The actual sum payable would be based on actual costs incurred up to this cap. This Directors Decision asks for approval to provide this funding subject to it having the ability to withhold the funding for the final four months of the project if by 1 April 2016 the Council is unable to demonstrate a material reduction in arrears in line with the project targets through their annual accounts and management reporting information.
- 2.6 The GLA has agreed a target with Islington to reduce total arrears by at least £1.5 million by 31 August 2016 (£346,000 of which would notionally accrue to the GLA through the sharing of future collection fund surpluses). Therefore for an investment of £105,000 over the project lifetime the GLA would expect to receive an additional £346,000 in council tax revenues – a net surplus of over £240,000 on the GLA's investment. Once the team becomes established the aspiration would be that a higher level of arrears reductions would be achieved given the investment being made. The team will also focus on minimising the build up of new arrears in the current financial year.
- 2.7 Billing authorities do not receive discrete funding from government grant to assist in maximising the levels of council tax income and collection. Without the GLA's support the borough would be required to pay 100% of the cost of this project but only receive 77% of the additional income which results. It is therefore perfectly legitimate that the GLA makes a contribution towards the project in proportion to the benefits it will receive.

3. Equality comments

- 3.1 There are no direct equality implications for the GLA as the project will be managed by the London Borough of Islington and any staff will be recruited by it under its terms and conditions. The Council should have regard to appropriate equality considerations in its role as a public authority under relevant legislation.
- 3.2 It is intended that any new staff recruited will be sourced locally and up to 10 additional jobs may therefore be created for Londoners and where possible Islington residents. Due to the diversity of the borough's population it would be expected a significant proportion of the staff recruited would be from Black and Minority Ethnic groups.

4. Other considerations

- 4.1 The project is expected to be self financing over time with any costs being more than offset by additional council tax revenues. Staff will be recruited on fixed term contracts for the duration of the project. There is a risk that council tax arrears might not be reduced in net terms as a result of the project but it is expected that the project will result in arrears levels being lower than they otherwise would have been. The rewards compared to the planned investment, however, are significant given that the GLA's share of outstanding arrears is around £5.5 million.

5. Financial comments

- 5.1 The Mayor's precept for the London Borough of Islington generates nearly £21.3 million of revenue for the GLA group annually. In light of its recent rapid population growth and increase in new developments the authority has experienced challenges in maximising council tax collection rates.
- 5.2 The Council collects council tax, non domestic rates and Crossrail Business Rate supplement revenues on behalf of the GLA but in respect of the former does not receive discrete additional funding to support its billing and enforcement responsibilities. In light of the additional spending pressures on the council it has invited the GLA to contribute to the costs of a new project team with a remit to reduce existing council tax arrears levels. The GLA's funding will be provided in proportion to its share of any additional council tax revenues which might result (i.e. 23 per cent in 2015-16 representing the share which the Mayor's precept represents of the total council tax charge payable by Islington residents).
- 5.3 The estimated total cost of the arrears reduction project would be approximately £33,000 per month or £450,000 per annum with payments made quarterly in arrears. The GLA would contribute up to £26,250 per quarter or up to £105,000 over the project lifetime in proportion to its share of the council tax for 2015-16. The GLA has agreed a target with Islington to reduce arrears by at least £1.5 million by August 2016 (£346,000 of which would notionally accrue to the GLA through the sharing of future collection fund surpluses).
- 5.4 The agreed contribution equates to less than 2 per cent of the GLA's £5.5 million share of the existing council tax arrears in Islington.

6. Legal comments

- 6.1 The GLA is a major precepting authority under section 39 of the Local Government Finance Act 1992 (the LGFA) as amended by section 82 of the Greater London Authority Act 1999 (the GLA Act), and issues precepts to billing authorities in Greater London, including the London Borough of Islington. The London Borough of Islington is, within its area, the responsible local billing authority for council tax – including the collection and enforcement of council tax debt – under the LGFA.
- 6.2 The GLA has an interest in maximising council tax collection in the borough on the basis that, as noted above, it receives 23 per cent of any additional revenues collected through reduced arrears and improved council tax collection rates. Under section 34 of the GLA Act the GLA has the power to do anything calculated to facilitate the exercise of the GLA's functions. An increase in revenue is so calculated. This power is subject to the limitation that the GLA may not raise money by virtue of it, except in accordance with relevant legislation; in the present case any money to be raised is to be raised in accordance with the relevant legislation. Reasonable expenditure designed to achieve a better level of council tax payment for the GLA is therefore within the power of the GLA.
- 6.3 Under section 34 of the GLA Act the GLA has the power to do anything calculated to facilitate the exercise of the GLA's functions. Taking steps to increase revenue is so calculated. This power is subject to the limitation that the GLA may not raise money by virtue of it, except in accordance with relevant legislation; in the present case any money to be raised is to be raised in accordance with the relevant legislation. Reasonable expenditure designed to achieve a better level of council tax income for the GLA, through improvement of the collection rates in a billing authority, is therefore within the power of the GLA.
- 6.4 The formal agreement with the London Borough of Islington is consistent with the GLA's standard format which has been approved by the Commercial law team.

7. Planned delivery approach and next steps

- 7.1 The planned project delivery is set out below:

Activity	Timeline
Procurement of contract	Not applicable
Announcement	Not applicable
Delivery Start Date	Autumn 2015
Interim evaluation of progress and submission of funding claim for 2015-16	April 2016
Delivery End Date and submission of final claim	October 2016
Project Closure – albeit GLA would have the ability to extend it for a further 12 months by mutual agreement.	October 2016

Appendices and supporting papers:

None

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary.

Note: This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 Deferral:

Is the publication of Part 1 of this approval to be deferred? NO

If YES, for what reason:

Until what date: (a date is required if deferring)

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to
confirm the
following (✓)

Drafting officer:

Martin Mitchell, GLA Group Finance Manager has drafted this report in accordance with GLA procedures and confirms that:

✓

Assistant Director/Head of Service:

David Gallie, Assistant Director Finance has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Financial and Legal advice:

The Finance and Legal teams have commented on this proposal, and this decision reflects their comments.

✓

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

M. J. Allie

Date

19.11.15