

REQUEST FOR DIRECTOR DECISION – DD2274

Title: To Approve the Extension of Funding for a Project to Reduce the Level of Council Tax Arrears in the London Borough of Newham into 2018-19 and 2019-20

Executive Summary:

The London Borough of Newham has faced significant challenges in relation to council tax collection in recent years due to the large growth in its taxbase arising from new developments. At 31 March 2018 it had arrears of £29.6 million of which the GLA's element is £6.9 million (23%) based on 2018-19 council tax shares. The GLA is forecast to receive £22.3 million from Newham taxpayers in 2018-19 through the Mayor's precept and a further £1.5 million in respect of prior year surpluses.

The GLA has provided funding of £0.22 million covering the period 1 April 2015 to 31 March 2018 to part fund a dedicated project team to tackle the level of council tax arrears within the borough with Newham Council providing a further £0.77 million reflecting each authority's respective share of council tax. Over this period the team collected around £3.6 million of outstanding arrears of which around £0.82 million accrued to the GLA – nearly four times its investment – as well as reducing the build up of in year arrears.

Approval is sought to extend this project for a further 18 months from 1 April 2018 to 30 September 2019 and approve GLA funding of up to £94,000 in 2018-19 and up to £48,000 for the first six months of 2019-20 (which represents 23% of the total estimated project costs of the team). The team would have a target to reduce overall business rates arrears by up to £1.5 million – of which approximately £400,000 would accrue to the GLA – as well as limiting in year arrears. Subject to the continued success of the project the intention would be to carry forward the GLA's funding into the second half of 2019-20.

Decision:

The Executive Director Resources approves:

A contribution of up to £142,000 covering the 18 month period from 1 April 2018 to 30 September 2019 towards a project by the London Borough of Newham to reduce its level of council tax arrears.

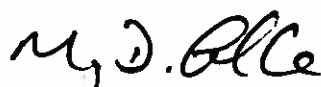
AUTHORISING DIRECTOR

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:

4.9.18

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 In Mayoral Decision 1553 it was agreed that the GLA should support borough business rates maximisation and council tax projects in principle and delegated authority to the Executive Director Resources to approve these on the condition that they should be self financing and result in additional revenues on an ongoing basis.
- 1.2 As a result of the significant increase in its taxbase in recent years arising from new developments – including in respect of the Royal Docks Enterprise Zone and Queen Elizabeth Olympic Park in which the GLA has a significant investment – and population growth London Borough of Newham has faced increasing challenges in maximising council tax revenues and collection rates.
- 1.3 In 2018-19 the GLA will receive £22.3 million of income through the council tax precept from taxpayers in the London Borough of Newham. It is also receiving an additional £1.5 million in respect of prior year collection fund surpluses which in part reflects improved council tax collection rates in the borough which arise from the joint investment made by the GLA and the borough council to tackle historic and limit in year arrears in the payment of council tax.
- 1.4 In DD1286 the GLA agreed to make a contribution towards a dedicated team focusing on reducing the level of council tax arrears for the 2015-16 financial year. The team has been sourced primarily from local borough residents who are employed directly by the Council. The GLA provided funding of £79,698 out of a total project cost of £331,823 for 2015-16 with the balance of £252,125 being financed by the borough council in line with the then relative council tax shares. During 2015-16 the project team collected around £1.4 million of outstanding arrears of which around £322,000 would have accrued to the GLA through the apportionment of collection fund surpluses
- 1.5 In DD2058 this funding was extended to cover the 2016-17 and 2017-18 financial years. The GLA provided funding of £141,300 over these two years with Newham Council providing a further £438,000. Over this period the team collected around £2.2 million of outstanding arrears of which around £0.5 million accrued to the GLA. Over the three years therefore for a GLA investment of around £0.22 million additional revenues for the GLA have been raised of around £0.82 million – a surplus of around £0.6 million. This does not take into account the less quantifiable reduction in the level of in year arrears which would otherwise have accrued had the team not been in place. As highlighted above Newham's estimated council tax collection fund surplus for prior years paid to the GLA in 2018-19 was £1.5 million which illustrates the broader financial benefit of this investment
- 1.6 The borough continues to have a material level of Council Tax arrears of £29.6 million which reflects the impact of the 27 per cent growth in its council taxbase in the last five years. Based on the GLA's 23 per cent share of the council tax in 2016-17 (£294.23 out of £1,259) this level of arrears represents potential lost revenue to the GLA of £6.9 million.
- 1.7 The London Borough of Newham has requested that the project be extended again for at least a further 18 months with the GLA providing funding of up to £142,000 and Newham funding of up to £475,000. The team will have a target to reduce arrears by at least a further £1.5 million of which an estimated £350,000 would accrue to the GLA as well as ensuring in year arrears are kept to a minimum.

- 1.8 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 proportionate basis. Newham was the first authority to seek funding for this activity from the GLA and this has now been extended to other boroughs.
- 1.9 The ability of Billing authorities to meet the costs of such investment has also become more challenging in recent years due to the impact of reductions in general government grant funding. Without this project the GLA would make no contribution whatsoever to the cost of administering and collecting council tax in Newham despite the fact it will receive £23.8 million from the borough's council taxpayers in 2018-19.
- 1.10 The funding requested equates to 1.4 per cent of the GLA's share of the outstanding arrears and 0.4 per cent of the sum which will be collected from Newham council taxpayers on its behalf in 2018-19. It is anticipated that this would be recovered in full through an increase in the collection fund surplus for council tax in future years – as has been demonstrated through the outputs of the project team in its first three years.

2. Objectives and expected outcomes

- 2.1 The proposed project focuses on addressing Newham's current level of council tax arrears which was around £29.6 million at 1 April 2018. When it originally approached the GLA for funding to tackle its level of council tax arrears in 2015 Newham had 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; or
 - Sell the outstanding arrears for a percentage of the value to a private sector firm or
 - Recruit staff in house and undertake the work in house
- 2.2 It considered 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 uses appropriate tracing tools to contact debtors and maximise collection through telephone and SMS contact. In order to incentivise performance, staff are rewarded through performance related pay depending on level of arrears they collect. The staff are employed by LB Newham under the council's terms and conditions.
- 2.4 The total cost of the project team and related costs is estimated at around £408,000 in 2018-19 and £209,000 for the first six months of 2019-20. As the majority of the costs are staffing related the project costs can be predicted with relative certainty.
- 2.5 It is proposed that the GLA would contribute 23 per cent of the costs in line with its share of the local council tax for 2018-19 with the London Borough of Newham the remainder. Subject to demonstrating satisfactory performance in reducing arrears during 2018-19 and the early part of 2019-20 the intention is that the GLA would continue the funding for the remainder of 2019-20 and potentially into 2020-21.

- 2.6 The GLA has agreed a target with Newham to reduce total arrears by up to £1.5 million by 31 March 2019 (£350,000 of which would notionally accrue to the GLA through the sharing of future collection fund surpluses). 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 reducing in year arrears as this represents a risk due to the number of new properties coming on stream in the borough. Its council tax base for example increased by 7 per cent in 2018-19 alone.

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 Newham 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 including the public sector equality duty under section 149 of the Equality Act 2010.

4. Other considerations

- 4.1 The project is in effect self financing over time with any costs being more than offset by additional council tax revenues collected. 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 £6.9 million – and this in effect represents foregone revenue.

5. Financial comments

- 5.1 The Mayor's precept for the London Borough of Newham generates over £23 million of revenue for the GLA group annually. With the exception of this proposed project the GLA makes no direct contribution towards the enforcement or collection of these revenues. In light of its recent rapid population growth and increase in new developments in Stratford and the Royal Docks the authority has experienced greater challenges than are typical for other local authorities 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 continue to contribute to the costs a project team with a remit to reduce existing council tax arrears levels.
- 5.3 The GLA's contribution towards the project is also in direct proportion to its financial benefit from the scheme. The project also meets the objective as agreed in MD1553 as it will in effect be self financing over time and result in additional revenues on an ongoing basis.
- 5.4 The GLA also has a direct interest in maximising council tax and business rates revenues in the borough due to the Royal Docks Enterprise Zone and the joint work undertaken with the Council through the LLDC in relation to Queen Elizabeth Olympic Park.

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 Newham. The London Borough of Newham 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 currently 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, through improvement of the collection rates in a billing authority, is therefore within the power of the GLA.
- 6.3 The formal agreement with the London Borough of Newham should be consistent with the GLA's standard format.

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	2018
Evaluation of progress and submission of funding claim for 2018-19	Spring 2019
Consideration of approval to extend funding for a further year to March 2020	Mid 2019
Final claim for funding under this approval	Autumn 2019

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 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. The proposal originates from the Group Finance team.

✓

Corporate Investment Board:

The Corporate Investment Board reviewed this proposal on 3 September 2018.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

M. D. Gallie

Date

4.9.18