

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2058

Title: To Approve Funding for a Two Year Project in 2016-17 to the Reduce Level of Council tax Arrears in the London Borough of Newham

Executive Summary:

The London Borough of Newham has faced significant additional challenges in relation to council tax collection in recent years due to the large growth in its taxbase and population arising from new developments including the Queen Elizabeth Olympic Park and the Royal Docks.

The Council had an estimated £29 million of council tax arrears at 1 April 2016 – of which £6.4 million (22 per cent) relates to the sums owed in respect of the GLA's Precept based on 2016-17 tax shares. The Council has approached the GLA to seek funding to enable it to continue to employ 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 2016-17 of up to £79,200 and – subject to Newham demonstrating material progress on reducing arrears commensurate with the GLA's investment – up to a further £80,000 in 2017-18. The proposed agreement with Newham has set a target to reduce arrears by £2 million by the end of the project – of which £440,000 would notionally accrue to the GLA. The project extends the agreement with LB Newham in 2015-16 which secured a £1.4 million reduction in arrears for a £0.33 million investment – the GLA's share of the reduced arrears being £308,000 for an £79,698 contribution.

Decision:

The Executive Director Resources approves payment of up to £79,200 as a contribution in 2016-17 towards a project by the London Borough of Newham to reduce its level of council tax arrears and subject to the Council demonstrating adequate performance on the project up to a further £80,000 in 2017-18. The costs would be charged to the GLA's business rates reserve initially – and recoverable through expected future council tax collection fund surpluses.

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:

17.1.17

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 In 2016-17 the GLA will receive £19.9 million of income through the council tax precept from taxpayers in the London Borough of Newham.
- 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 and Queen Elizabeth Olympic Park in which the GLA has a significant investment – and population growth 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 £30.4m as at 1 April 2014. Based on the GLA's 22 per cent share of the council tax in 2016-17 (£276 out of £1,240) this level of arrears represented potential lost revenue to the GLA of £6.4 million.
- 1.3 In 2015 the London Borough of Newham 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 was sourced locally and employed by the Council. The GLA provided funding of £79,698 out of a total project cost of £331,823 with the balance of £252,125 being financed by the borough council in line with relative council tax shares. This funding was approved in Directors Decision DD1286.
- 1.4 The project team had a target to deliver a £1.25 million reduction in arrears in the first twelve months – of which £1.4 million was achieved albeit with the project cost to the GLA being around £5,000 lower than the £84,000 allocation approved in the original directors decision for 2015-16. The London borough of Newham reported a collection fund surplus of £4.5 million in its 2015-16 accounts of which £983,000 accrues to the GLA and is being paid over through the 2016-17 council tax instalments – and this project will have contributed towards this surplus.
- 1.5 The London Borough of Newham has requested a further £79,200 of GLA funding to continue this project for a further 12 months – backdated to 1 April 2016 - which will be matched by an additional £280,000 funded by the borough council. Subject to the Council demonstrating adequate performance up to a further £80,000 would be made available in 2017-18 by the GLA matched by a £284,000 contribution by Newham. This will finance a dedicated project team of 8 staff including related IT and accommodation costs. The team will have a target to reduce arrears by at least a further £2 million of which an estimated £440,000 would accrue to the GLA.
- 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. This is particularly acute for authorities experiencing rapid population growth such as Newham as this has not translated into a proportionate increase in its share of national grant funding as a result of the damping arrangements applied within the local government finance settlement since 2013-14. 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 nearly £20 million from the borough's council taxpayers in 2016-17.

- 1.7 The funding requested equates to less than 3 per cent of the GLA's share of the outstanding arrears and 0.4 per cent of the sum which will be collected via the GLA precept from Newham council taxpayers in 2016-17. It is anticipated that this would be recovered in full through an increase in the collection fund surplus for council tax in future years.

2. Objectives and expected outcomes

- 2.1 The proposed project focuses on reducing Newham's current level of council tax arrears which was around £29 million at 1 April 2016. Newham 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 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 will use appropriate tracing tools to contact debtors and maximise collection through telephone and SMS contact. In order to incentivise performance staff are employed on fixed term contracts and are rewarded through performance related pay depending on level of arrears they collect. The staff operate through the One Source shared service arrangement which the Council has entered into with the London Borough of Havering – and are branded as such – although they 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 £360,000 at 2016-17 prices per annum. 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 up to £79,200 in proportion to its 22 per cent share of the council tax for 2016-17 with the London Borough of Newham contributing £281,000. Subject to demonstrating satisfactory performance in reducing arrears during 2016-17 the GLA would contribute up to £80,000 in 2017-18 towards the total estimated costs allowing for inflation of £364,000 with Newham contributing the balance estimated at £284,000. The actual sum payable would be based on actual costs incurred up to this cap and may be reviewed if the GLA's share of the council tax in Newham changes materially in 2017-18.
- 2.6 The GLA has agreed a target with Newham to reduce total arrears by up to £2 million by 31 March 2018 (£440,000 of which would notionally accrue to the GLA through the sharing of future collection fund surpluses). Therefore for an investment of £159,200 over the project lifetime the GLA would expect to receive as a minimum an additional £440,000 in council tax revenues – a net surplus of £280,800 on the GLA's investment. The aspiration would be that a higher level of arrears reductions would be achieved given the investment being made.

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.
- 3.2 It is intended that any new staff recruited will be sourced locally and up to 8 additional jobs have already been created for Londoners and where possible Newham residents under the project the GLA funded in 2015-16. Due to the diversity of the borough's population a significant proportion of the staff recruited are 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 £6.4 million.

5. Financial comments

- 5.1 The Mayor's precept for the London Borough of Newham generates nearly £20m 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 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. 22 per cent in 2016-17 representing the share which the Mayor's precept represents of the total council tax charge payable by Newham residents).
- 5.3 The estimated total cost of the arrears reduction project would be £360,000 per annum rising to £364,000 in 2017-18 allowing for 1 per cent inflation on payroll costs. The GLA would contribute up to £79,200 in proportion to its share of the council tax for 2016-17 on the basis of a pro rata total project cost of £360,000 and up to £80,000 in 2017-18 on the basis of a pro rata total project cost of £364,000. The GLA has agreed a target with Newham to reduce arrears by £2.2 million through this project by 31 March 2018 (£440,000 of which would notionally accrue to the GLA through the sharing of future collection fund surpluses).
- 5.4 The agreed contribution equates to 3 per cent of the GLA's £6.4 million share of the existing council tax arrears in Newham – and a reduction in arrears of this magnitude would be sufficient to ensure full recovery of the contribution.

- 5.5 The GLA also has a very 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 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 22 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 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	2016-17
Interim evaluation of progress and submission of funding claim for 2016-17	April 2017
Evaluation of progress and delivery and submission of funding claim for first half of 2017-18 by LB Newham.	October 2017
Delivery End Date and submission of final claim	April 2018
Project Closure	31 March 2018

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 agreed this proposal on 16 January 2017.

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

17.1.17