

# GREATER LONDON AUTHORITY

## REQUEST FOR DIRECTOR DECISION – DD2286

### Title: To Approve Funding for a Project to Reduce the Level of Business Rates Arrears in the London Borough of Islington

#### Executive Summary:

The London Borough of Islington has approached the GLA to extend its contribution for a project to reduce the level of business rates arrears in the borough for a further two years covering the 2018-19 and 2019-20 financial years. The project funds the costs of a dedicated business rates arrears recovery team which has been in place since 2016-17. Up to March 2018 the project team's work had resulted in the Council recovering an additional £3.3 million of outstanding business rates arrears of which the GLA's notional share is over £1.1 million for an investment by the GLA of only £61,000. This gain does not take into account the impact of the project on reducing the accumulation of in-year arrears.

This decision seeks approval for the GLA to extend its funding for the project for a further two years by providing a contribution of up to £120,000 towards the estimated total project cost of £333,000 – reflecting its current 36 per cent business rates retention share. The upfront cost will be charged to the GLA's business rates reserve. The project will focus on initiatives which seek to reduce the outstanding level of business rates arrears by at least £800,000 per annum and also minimise in year arrears.

#### Decision:

That the Executive Director of Resources approves:

A contribution from the Greater London Authority to the London Borough of Islington of up to £120,000 over the two financial years 2018-19 and 2019-20, to fund the continuation of a project to reduce business rates arrears in the borough. It is anticipated that up to £59,700 will be payable in 2018-19 and up to £60,300 in 2019-20. The upfront project costs will be charged to the GLA's Business Rates Reserve.

#### 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:

6. 11. 18

## **PART I - NON-CONFIDENTIAL FACTS AND ADVICE**

### **Decision required – supporting report**

#### **1. Introduction and background**

- 1.1. In 2018-19 the GLA will receive an estimated £106.5 million from Islington business ratepayers – in line with its 36 per cent share of revenues under the business rates retention scheme. If there is net growth in the rates base each year in real terms, this accrues to the GLA on broadly the same percentage basis. It is also due to receive a further £8.6 million through the Crossrail Business Rate Supplement.
- 1.2. In Mayoral Decision 1553 Mayoral approval was given to the principle of supporting projects by billing authorities which maximise business rates income. MD1553 delegated authority to the Executive Director Resources to enter into contractual agreements with boroughs to support such projects, on the condition that they should be self-financing and result in additional rates income.
- 1.3. The Borough established an in-house team in 2016-17 to focus on reducing business rates arrears, the level of which stood at £18 million (including bad debt provisions) as at 31 March 2017. The GLA agreed to provide a contribution towards the cost of the team through Directors Decision DD2056 in proportion to its retained share of locally business rates in both 2016-17 and 2017-18. Between February 2017 and March 2018, the team collected £3.3 million in business rates arrears, against a minimum target of £800,000 over the period. The total cost of the team was £122,000, with the GLA's contribution totalling £61,000 reflecting the respective local retention shares in each year (i.e. 40 per cent in 2016-17 and 55 per cent in 2017-18). The overall level of outstanding arrears which should at £15 million before the project team commenced has now fallen to around £12 million.
- 1.4. Based on the initial success of the dedicated team, the posts within the arrears team have now been established as permanent, with effect from February 2018. There are current three full-time equivalent FTE members of staff dealing with business rates arrears, as part of a wider Aged Debt Team, with 11 FTEs. Other members of this wider team are also working on the collection of council tax arrears and the GLA's funding support for that project in 2018-19 is subject to a separate decision (DD2287).
- 1.5. The London Borough of Islington has approached the GLA to seek a contribution towards its ongoing project for 2018-19 and 2019-20 with the intention of maximising business rates income. The extension of this project for a further two years is expected to continue to realise substantial benefits to the GLA, significantly in excess of the level of contribution provided to fund the team. Additional rates income recovered will be transferred to the GLA in cash terms through the collection fund surplus or deficit forecast prepared each January through an adjustment to the instalments by the Council during the 2019-20 and 2020-21 financial years. This will include any backdated sums due for prior years in addition to sums collectable for 2018-19 and 2019-20. In addition, a small element of funding totalling around £3,000 will be provided to reflect the additional costs associated with card payment processing fees as allowing payment by this mechanism improves collection rates and allows ratepayers to spread the cost of their bills over a longer period.
- 1.6. This is a legitimate request for funding as billing authorities do not explicitly receive additional funding central government to fund the costs of business rates maximisation and any investment they make which increases the sums collected benefits the GLA financially on a proportionate basis. The funding will not be used to resource the borough council's normal collection and enforcement work in respect of business rates. Without this funding the GLA would make no contribution directly towards collecting and enforcing the £106.5 million it is forecast to receive in business rates income from Islington in 2018-19.

## **2. Objectives and expected outcomes**

- 2.1. The project will extend support for a project to reduce Islington's current level of business rates arrears which have fallen from £15 million to around £12 million since the dedicated team created by the Council and part funded by the GLA was created in 2016-17. The GLA's estimated share of the additional revenue is over £1 million compared to an investment up to 31 March 2018 of around £61,000.
- 2.2. In 2018-19 and 2019-20 the team will continue to use appropriate tracing tools to contact debtors and maximise collection through telephone and SMS contact including:
- Identifying debts outstanding through software system reports focusing on persistent debtors, absconders, those who had failed to make payments for a period of time and property owners/landlords who would have sufficient assets to repay any sums owed.
  - Using desktop tracing tools to identify forwarding addresses and contact detailers for debtors.
  - Pursuing debtors through a variety of contact methods.
  - Negotiating arrangements for payments or settlement with debtors in compliance with council procedures.
  - Ongoing monitoring of payments agreed including and re-contacting those who default on agreed payment plans.
- 2.3. The annual cost of the business rates element of the team's work is estimated at just under £166,000 per annum (2018-19 prices) or £333,000 allowing for pay and other inflation in 2019-20 over the two years. As the majority of the costs are staffing related the project costs can be predicted with relative certainty. Without the GLA's support the borough would be required to pay 100% of the cost of this project but only receive a maximum of two thirds of the additional income which results under the London 100 per cent retention pilot. It is therefore perfectly legitimate that the GLA makes a contribution towards the project in proportion to the benefits it will receive.
- 2.4. In summary therefore
- The GLA will contribute up to £120,000 of the proposed £333,000 cost of the project team and card processing payments over the 2018-19 and 2019-20 financial years, with Islington contributing the remaining £210,000.
  - The team will be set a target to collect £800,000 of outstanding arrears and ensure that in year arrears are minimised. It is noted that this was also the target for the original project but the actual sum secured was around four times that.

## **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; staff employed on the project are recruited by the Council under its terms and conditions and any contract it enters into will be under the terms of its procurement code. The Council should have due regard to relevant 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 intended to be self-financing with the upfront costs being offset by additional business rates income generated. There is a marginal risk that the Council will fail to deliver a reduction in arrears due to the project but the payment of the GLA's funding will be conditional on the Council demonstrating performance in this area.

#### **5. Financial comments**

- 5.1. The GLA receives non-domestic rates and business rate supplement income collected by LB Islington in respect of its relevant share (36% and 100% respectively) in 2018-19. The Council collects these revenues on behalf of the GLA; through the cost of collection allowance it retains a small proportion of business rates income to fund billing and enforcement duties.
- 5.2. The Council does not receive discrete additional funding to support work which maximises the size of the rating list. It is therefore reasonable for the GLA to be asked to contribute towards efforts to maximise the size of the rating list and address under valuations of particular assessments relative to their correct market value.
- 5.3. Funding will be provided to LB Islington via a grant agreement to be signed by the GLA and the Borough. The upfront cost of £120,000 will be funded from the business rates reserve. However, in effect, the project is expected to be self-financing over time and result in additional revenues on an ongoing basis.
- 5.4. The GLA has previously paid £61,000 towards the cost of the business rates arrears project team covering part of 2016-17 and the whole of 2017-18 and its work is estimated have reduced the level of outstanding arrears by £3.3 million of which the GLA's notional share paid over via collection fund surpluses is over £1 million. This demonstrates the financial and wider benefits of this investment for the GLA. In common with 31 other London billing authorities the GLA is also contributing to the costs of additional property inspection staff and related activities in order to ensure the accuracy of the business rates valuation lists as well as seeking to identify fraudulent and erroneous claims being made for reliefs and exemptions.

#### **6. Legal comments**

- 6.1. The London Borough of Islington is the billing authority for non-domestic rates in its area under the Local Government Finance Act 1988. Under section 41 of that Act, it is the responsibility of the valuation officer for a billing authority to compile, and then maintain, its local non-domestic rating lists. It is stated above (at 1.6) that beyond funding previously received from the GLA to support business rates maximisation projects, the Council does not receive discrete funding from government grant to assist in maximising the size of the rating list.
- 6.2. The GLA has an interest in maximising business rates collection in the borough on the basis that, as noted above, it currently receives 36 per cent of any additional income collected through reduced arrears. 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 business rates

payment for the GLA, through the reduction of arrears in a billing authority, is therefore within the power of the GLA.

- 6.3. The formal agreement with the London Borough of Islington should be consistent with the GLA's standard format.

**7. Planned delivery approach and next steps**

<b>Activity</b>	<b>Timeline</b>
Delivery Start Date	April 2018
Evaluation of progress and submission of funding claim for 2018-19	Spring 2019
Evaluation of progress and submission of funding claim for 2019-20	Spring 2020
Final claim for funding under this approval	Summer 2020

**Appendices and supporting papers:**

None.

**Public access to information**

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) 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 it has been approved 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 – Sensitive information**

Only the facts or advice that would be exempt from disclosure under FoIA should be included 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 has drafted this report in accordance with GLA procedures and confirms the following:

✓

**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. The Decision originates from Finance.

✓

**Corporate Investment Board**

This decision was agreed by the Corporate Investment Board on the 5 November 2018.

**EXECUTIVE DIRECTOR, RESOURCES:**

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

**Signature**

*M. J. Gallie*

**Date**

*6. 11. 18*