

CABINET

20 September 2016

Title: Debt Management Performance and Write-Offs 2016/17 (Quarter 1)	
Report of the: Cabinet Member for Finance, Growth and Investment	
Open Report	For Information
Wards Affected: None	Key Decision: No
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Accountable Director: Jonathan Bunt, Strategic Director of Finance and Investment	
Summary This report sets out the performance of the Council's partner, Elevate East London, in carrying out the contractual debt management function on behalf of the Council. This report covers the first quarter of the financial year 2016/17. The report also includes summaries of debt written off in accordance with the write off policy that was approved by Cabinet on 18 October 2011.	
Recommendation(s) Cabinet is recommended to: (i) Note the contents of this report as it relates to the performance of the debt management function carried out by the Revenues and Benefits service operated by Elevate East London, including the performance of enforcement agents; (ii) Note the debt write-offs for the first quarter of 2016/17	
Reason Assisting in the Council's Policy aim of ensuring an efficient organisation delivering its statutory duties in the most practical and cost-effective way. This ensures good financial practice and adherence to the Council's Financial Rules on the reporting of debt management performance and the total amounts of debt written-off each financial quarter.	

1. Introduction and Background

- 1.1 The Council's Revenues, Benefits, General Income and Rents Service is operated by the Council's joint venture company, Elevate East London LLP (Elevate). The service is responsible for the management of the Council's debt falling due by way of statutory levies and chargeable services. It also collects rent on behalf of Barking

and Dagenham Reside. Council debts not collected by Elevate are not included in this report, for example parking and road traffic debt prior to warrants being granted and hostel and private sector leasing debt.

- 1.2 This report sets out performance for the first quarter of the 2016/17 municipal and financial year and covers the overall progress of each element of the service since April 2016. In addition it summarises debts that have been agreed for write off in accordance with the Council's Financial Rules. All write offs are processed in accordance with the Council's debt management policy agreed on 18th October 2011.

2. Proposal and Issues

- 2.1 Set out in Table 1 below is the performance for quarter one of 2016/17 achieved for the main areas of debt managed by Elevate.

Table 1: Collection Rate Performance – Quarter One 2016/17

Type of Debt	Year end target	Quarter 1 target	Quarter 1 Performance	Variance	Actual collected £m
Council Tax	95.6%	29.8%	30.1%	+0.3%	£19.905m
Council Tax Arrears	£1.992m	£0.595m	£0.839m	+£0.244m	£0.839m
NDR	98.2%	32.3%	32.4%	+0.1%	£19.257m
Rent	98.16%	24.53%	24.17%	-0.36%	£24.486m
Leaseholders	98.00%	28.70%	32.09%	+3.39%	£1.350m
General Income	95.60%	75.00%	81.70%	+6.70%	£14.499m

Council Tax Collection Performance

- 2.2 Council Tax collection ended the quarter 0.3% above the profile target at 30.1%.
- 2.3 Indications are that taxpayers continue to find payment of Council Tax challenging with the number of reminders sent increasing in 2016/17 by 2,123 (9%) when compared with 2015/16.

Council Tax Arrears

- 2.4 By the end of quarter one £0.839m had been collected; this is £0.244m above the target and £0.123m above the arrears collected in 2015/16.
- 2.5 As with in-year Council Tax, a more proactive approach taken in 2015/16 has been continued into 2016/17. This approach which allows taxpayers to catch up and take a more holistic view of their debt has resulted in a significant rise in arrears collection.
- 2.6 It is never the case that all the Council Tax for a particular year is collected in that year with work to collect unpaid Council Tax continuing in the years that follow. In

2013/14 the introduction of Council Tax Support resulted in a drop in collection from 94.6% to 94.1%, however in the years that follow collection continued and by the end of 2015/16 the collection rate for 2013/14 had risen to 96.7%, an increase of 2.6%, which is the equivalent of an extra £1.3m in revenue, see table 2 below. These figures include all payments received up until the end of Quarter 1 2016.

- 2.7 The Council Tax team's ability to adapt to the challenges presented by the Council Tax Support scheme, the increasing number of properties within the borough and the increase in the Council Tax charge have improved collection rates year on year to the higher levels now seen in Barking and Dagenham.

Table 2:

Quarter 1 - 2016/17								
Year	Charge year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
2009/10	92.9	95.0	95.7	96.1	96.4	96.6	96.8	96.8
2010/11	92.9	95.0	95.7	96.1	96.3	96.6	96.6	
2011/12	94.1	95.7	96.3	96.6	96.8	96.9		
2012/13	94.6	96.2	96.6	96.9	97.0			
2013/14	94.1	96.0	96.6	96.7				
2014/15	94.3	96.1	96.3					
2015/16	94.8	95.5						

Business Rates (NNDR) Collection Performance

- 2.8 The NNDR collection rate reached 32.4% by the end of the first quarter. This is 0.1% above the target of 32.3%.
- 2.9 Business Rates collection remains at a healthy level for Barking and Dagenham and collection rates remain on target. As the payable debt can move quite significantly from month to month it is being closely monitored. A pro-active approach to collection has proved successful and businesses are regularly contacted to both ensure they pay on time and to identify any problems at the earliest possible opportunity.

Rent Collection Performance

- 2.10 As at the end of quarter 1, the actual cash collection stood at 24.172% which was 0.36% below the target of 24.53% (£380k). This is expected to increase as new initiatives are undertaken. There a number of challenges for rent collection in this respect: Housing Benefit income to the HRA has reduced significantly over the last few years. The proportion of the rent paid by HB was 49.17% in 2015/16 compared to 51.33% in 2014/15. This year so far it has fallen further to 47.19%. This has come about because:
- Welfare Reform changes including the benefit cap and under occupancy have affected collection. Presently we have £318,125 owed in arrears by residents affected by the under occupancy legislation, this is 44.4% of all tenancies currently in arrears.

- b. The HB caseload for council tenants fell by 953 or 7.24% from April 2013 to June 2016 which means a greater level of debt has become collectable from the resident.
- c. Due to the varying Welfare Reform changes residents are finding that entitlements have reduced or they more frequently drop in and out of entitlement.

2.11 The challenges are being combated by:

- Promoting DHP where possible,
- Regular rent campaigns, door step and by telephone
- Utilising an external outbound calling debt recovery service, and
- Additional support through outbound calling made to tenants in arrears
- Process automation to maximise the time available to focus on dealing with tenants in arrears
- Debt segmentation
- Additional overall resourcing

Reside Collection Performance

- 2.12 In addition to collecting rent owed on Council tenancies, Elevate also collect the rent for the Barking & Dagenham Reside portfolio.
- 2.13 Rent collection excluding former tenant arrears is stable with a collection rate of 99.17%.

Leaseholders' Debt Collection Performance

- 2.14 At the end of the first quarter collection reached 32.09%, with a total £1.350m having been collected, this is 3.39% above target. At year end the number of accounts with arrears achieved a new low of 349 (£0.274m) accounts. In 2010/11 the number of accounts in arrears at year end totalled 934 (£0.459m). This reduction has been achieved by ongoing improvement in maintaining a more robust and proactive approach throughout the year, ensuring late payers are consistently reminded to pay as early as possible. This improvement has not involved writing debt off as leasehold debt is very rarely written off given that the Council is able to force a sale in order to recover debt where required. In addition, during the first quarter an 'outbound calling' campaign resulted in only 140 cases valued at £0.139m being referred for enforcement action compared to 333 cases valued at £0.233m last year.

General Income Collection Performance

- 2.15 General Income is the term used to describe the ancillary sources of income available to the Council which support the cost of local service provision. Examples of areas from which the Council derives income collected by Elevate include: social care charges; rechargeable works for housing; nursery fees; trade refuse; hire of halls and football pitches. The Oracle financial system is used for the billing and collection of these debts and is also used to measure Elevate's performance.
- 2.16 At the end of quarter one collection in this area remained strong reaching 81.70% against a target of 75.00%.

A&CS Homes and A&CS Residential – Collection of Social Care Charges (home and residential)

- 2.17 The Council introduced a new Care and Support Charging policy for 2015/16 following the government introduction of the Care Act 2014.
- 2.18 Collection of debt for Home and Residential Care is reported separately. Residential care debt which the Council has secured with a charging order against the client's assets, usually their property, is not included in these figures. The agreed measure for 2016/17 is the amount collected against the in-year debt that has been invoiced.
- 2.19 The collection rate for Home Care by the end of quarter one reached 66.26% which was 6.26% above target. For Home Care charges for previous years the collection rate was 84.30%. For Residential Care charges the in year collection rate was 72.91% and for earlier years it was 94.28%.
- 2.20 The debt recovery process for these debts is similar to that of other debts, but with extra recognition given to particular circumstances. In order to ensure that the action taken is appropriate and to maximise payments, each case is considered on its own merits at each stage of the recovery process and wherever possible payment arrangements are agreed. In addition a further financial reassessment of a client's contribution is undertaken where there is extraordinary expenditure associated with the care of the service user. The relevant procedures have been updated to take account of the Care Act.

Penalty Charge Notices (PCN) – Road Traffic Enforcement

- 2.21 This recovery work only includes debts due to Penalty Charge Notices (PCNs) for parking, bus lane and box junction infringements once a warrant has been obtained by Environmental and Enforcement Services (Parking Services) from the Traffic Enforcement Centre (TEC). Elevate enforce these warrants through enforcement agents acting on behalf of the Council and closely monitor the performance of these companies.
- 2.22 Overall collection rates on PCNs would be reported by Parking Services. Elevate's collection performance is measured only once a batch of warrants has expired, i.e. after 12 months. Since April 2016, 4 batches of warrants have expired for which the collection rate is 14.00%. The total amount of cash collected through enforcement of road traffic warrants is £99,651 for quarter one.

Housing Benefit Overpayments

- 2.23 By the end of the first quarter collection totalled £1.224m. £2.667m had been raised in the first quarter compared to £2.867m in first quarter of 2015/16.
- 2.24 Collection in the first quarter stood at 45.89% which is 3.89% above target.

Enforcement Agent (Bailiff) Performance

- 2.25 Enforcement agent action is a key tool for the Council to recover overdue debts but is only one area of collection work and is always the action of last resort. The introduction of the CTS scheme in 2013/14 meant around 13,000 additional

households became liable to pay a proportion of Council Tax. This number increased again in April 2015 with the revised CTS scheme meaning that there has been additional debt recovery action. The affected group of residents are working age but their circumstances vary as they move in and out of work. The ability to collect all sums due to the Council continues to be made progressively more challenging as welfare reforms continue to take effect. This is alongside the cumulative yearly effect of CTS on arrears which is increasing overall indebtedness.

- 2.26 Information on the performance of the enforcement agents is set out in the table below by type of debt for the first quarter of 2016/17.

Table 3: Enforcement Agent Collection Rates – 2016/17

Service	Value sent to enforcement agents £	Total collected by enforcement agents £	2016/17 Collection rate %
Council Tax	£539,895	£27,214	5.04%
NNDR	£929,667	£53,213	5.72%
Commercial rent	£47,242	£25,945	54.92%
General Income	£69,309	£7,060	10.19%

Debt Write-Offs: Quarter 1 2016/17

- 2.27 All debt deemed suitable for write off has been through all the recovery processes and is recommended for write off in accordance with the Council's policy. The authority to "write off" debt remains with the Council. The value of debt recommended to the Strategic Director, Finance & Investment and subsequently approved for write off during the first quarter of 2016/17 totalled £99,150. The value and number of cases written off in quarter one is provided in Appendix A.
- 2.28 219 debts were written off in quarter one for which the reasons are set out below. The percentage relates to the proportion of write offs by value, or by number:

Table 4: Write off numbers – 2016/17 Quarter 1

Absconded/not traced	Uneconomic to pursue	Debtor Insolvent	Deceased	Other reasons
£3,950.20	£26,042.47	£32,464.32	£21,050.51	£15,642.77
3.98%	26.27%	32.74%	21.23%	15.78%

Absconded/not traced	Uneconomic to pursue	Debtor Insolvent	Deceased	Other reasons
6	97	12	46	58
2.74%	44.29%	5.48%	21.00%	26.48%

(The 'other reasons' category includes examples such as: where the debt liability is removed by the Court or the debtor is living outside the jurisdiction of the English Courts and is unlikely to return).

- 2.29 The figures in Appendix B show the total write-offs for 2011/12, 2012/13, 2013/14, 2014/15 and for 2015/16.

3. Options Appraisal

- 3.1 Not relevant to this report as its purpose is to provide information on debt management performance and write-offs.

4. Consultation

- 4.1 This report has been prepared by Elevate and finalised with the agreement of the Strategic Director of Finance and Investment.

5. Financial Issues

Implications completed by: Kathy Freeman, Finance Director

- 5.1 Collecting all sums due is critical to the Council's ability to function. In view of this, monitoring performance is a key part of the monthly meetings with Elevate.
- 5.2 The monthly meetings between Elevate and the Council focus on the areas where the targets are not being achieved and discuss other possibilities to improve collection.
- 5.3 At the end of quarter 1, performance has exceeded targets in all key collection areas except for rent.
- 5.4 As with last year, performance on rent is currently below the target by 0.36%, which is equivalent to a cash shortfall of £380k. The Council has drafted a Rent Improvement Plan which is yet to be signed off by Elevate,
- 5.5 The level of write offs at the end of quarter one total £99,150. It is important that bad debts are written off promptly for budgeting purposes so the Council can maintain appropriate bad debt provision.
- 5.6 If debts are not promptly collected, this will have an adverse impact on the Council's overall financial position. Increases required to the Council's bad debt position are charged to the Council's revenue accounts and reduces the funding available for other expenditure.

6. Legal Issues

Implications completed by: Dr. Paul Feild, Senior Governance Lawyer

- 6.1 Monies owed to the Council in the form of debts are a form of asset that is the prospect of a payment sometime in the future. The decision not to pursue a debt carries a cost and so a decision not to pursue a debt is not taken lightly.

- 6.2 The Council holds a fiduciary duty to the ratepayers and the government to make sure money is spent wisely and to recover debts owed to it. If requests for payment are not complied with then the Council seeks to recover money owed to it by way of court action once all other options are exhausted. While a consistent message that the Council is not a soft touch is sent out with Court actions there can come a time where a pragmatic approach has to be taken with debts as on occasion they are uneconomical to recover in terms of the cost of process and the means of the debtor to pay. The maxim *no good throwing good money after bad* applies. In the case of rent arrears, the court proceedings will be for a possession and money judgement for arrears. However a possession order and subsequent eviction order is a discretionary remedy and the courts will more often than not suspend the possession order on condition the tenant makes a contribution to their arrears.
- 6.3 Whilst the use of Introductory Tenancies as a form of trial tenancy may have some impact in terms promoting prompt payment of rent as only those tenants with a satisfactory rent payment history can expect to be offered a secure tenancy, people can fall behind and get into debt. The best approach to resolve their predicament is to maintain a dialogue with those in debt to the Council, to offer early advice and help in making repayments if they need it and to highlight the importance of payment of rent and Council tax. These payments ought to be considered as priority debts rather than other debts such as credit loans as without a roof over their heads it will be very difficult to access support and employment and escape from a downward spiral of debt.
- 6.4 The decision to write off debts has been delegated to Chief Officers who must have regard to the Financial Rules.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

- **Appendix A** – Debt Write Off Table for Quarter 1 2016/17.
- **Appendix B** – Total debts written off in 2011/12, 2012/13, 2013/14, 2014/15 and 2015/16.