

CABINET

13 December 2016

Title: Debt Management Performance and Write-Offs 2016/17 (Quarter 2)	
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 second 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 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; and (ii) Note the debt write-offs for the second 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 second quarter of the 2016/17 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 two of 2016/17 achieved for the main areas of debt managed by Elevate.

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

Type of Debt	Year end target	Quarter 2 target	Quarter 2 Performance	Variance	Actual collected £m
Council Tax	95.6%	56.3%	56.1%	-0.2%	£37.352m
Council Tax Arrears	£1.992m	£1.062	£1.376	+£0.314m	£1.376m
NNDR	98.2%	55.2	54.6%	-0.6%	£32.740m
Rent	98.16%	48.21%	47.74%	-0.47%%	£50.407m
Leaseholders	98.00%	50.64%	53.09%	+2.45%	£2.234m
General Income	95.60%	85.00%	93.11%	+8.11%	£42.404m

Council Tax Collection Performance

- 2.2 Council Tax collection ended the quarter 0.2% (£133k) below the profile target at 56.1%. This is 0.6% above last year at the same time or the equivalent of £400k additional revenue. Additional resources have been deployed and the work outstanding fell in the last month of the second quarter.
- 2.3 Council Tax collection remains challenging with Council Tax support (CTS) reducing by 1.4% (£1.1m) and the number of CTS claimants has reduced by 1,234 since the start of the year. This reduction in CTS payments has resulted in an increase in the amount of Council Tax to be collected from those residents most likely to be in financial difficulty. The typical methods of enforcement (enforcement agents, committal etc) are least effective with these residents, therefore a longer term approach has been adopted allowing them more time to pay and avoid enforcement action whilst catching up with any arrears. Levels of debt recovery remain similar to last year with continued pressure on the service from customers having difficulty in paying in full by the end of the financial year.

Council Tax Arrears

- 2.4 By the end of quarter two £1.376m had been collected; this is £0.314m above the target.
- 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 Council Tax collection for each year continues and is classified as arrears. Pursuit of these debts does not cease, however the older the debt becomes the harder it is to collect. In many older cases the debtor has absconded and cannot be traced. The table below shows the collection rates for each year and for the years that follow.
- 2.7 The Council Tax team focus on collecting both current and arrears debts to ensure that customers do not accrue unmanageable Council Tax arrears. Since the introduction of CTS this has become a vital part of the service and every effort is made to help customers bring their accounts up to date in the shortest possible time period.

Table 2: cumulative Council Tax collection

Quarter 2 - 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	96.4					
2015/16	94.8	95.8						

Business Rates (NNDR) Collection Performance

- 2.8 The NNDR collection rate reached 54.6% by the end of the second quarter. This is 0.6% (360k) below the target of 55.2%.
- 2.9 New business starting in the borough has increased the net collectable debit since April 2016 by £350k. This creates an annual charge but as it is payable monthly and there is a lag before payments start this lowers the collection rate in the short term, although it is expected that the collection rate will recover by the end of the

year. The largest new companies are Coca Cola, The Go-ahead group and Veolia ES (UK) Ltd.

Rent Collection Performance

- 2.10 As at the end of quarter two, the collection stood at 47.74% which was 0.47% below the target of 48.21% (£380k). Housing Benefit (HB) 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 46.63%. The HB caseload has fallen this year from 11,980 in March to 11,410 in September, a fall of 570 or 4.76%.
- 2.11 These challenges are being combatted by:
- A comprehensive continuous service improvement plan;
 - The deployment of additional resources;
 - Promoting DHP where possible;
 - Regular rent campaigns, door step and by telephone;
 - 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; and
 - Debt segmentation.

Reside Collection Performance

- 2.12 In addition to collecting rent owed on Council tenancies, Elevate also collect the rent for the B&D Reside portfolio.
- 2.13 Rent collection excluding former tenant arrears is stable with a collection rate of 99.26%.

Leaseholders' Debt Collection Performance

- 2.14 At the end of the second quarter collection reached 53.09%, with a total 2.234m having been collected, this is 2.45% above target. Continued good performance is supported by early contact with those falling behind with payments.

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 two collections in this area remained strong reaching 93.11% against a target of 85.00%.

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 two reached 64.04% which was 4.04% above target. For Home Care charges for previous years the collection rate was 85.54%. For Residential Care charges the in-year collection rate was 77.37% and for earlier years it was 94.45%.
- 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, 10 batches of warrants have expired for which the collection rate is 15.00%. The total amount of cash collected through enforcement of road traffic warrants is £419,441 for quarters one and two.

Housing Benefit Overpayments

- 2.23 By the end of the second quarter collection totalled £2.394m with £6.616m having been raised in new overpayment debt up until the end of September. A driver of the increase in invoicing is the receipt by the Benefits of a high volume of cancellation notices from the DWP following an exercise to identify discrepancies within customer's applications. The total outstanding housing benefit overpayment debt for the council stands at £21 million with approximately 70% of this debt being actively recovered via arrangements and through the referral of debts to a debt recovery agency.

2.24 Collection at the end of the second quarter stands at 36.9%, the target is 42% therefore that is 5.1% below target. This shortfall is due to the rapid increase in overpayments arising from DWP notifications. A new system for recovering overpayments from other state benefits will be fully implemented during the next quarter.

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.

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

Table 3: Enforcement Agent Collection Rates – 2016/17

Service	Value sent to enforcement agents £	No. of cases	Total collected by enforcement agents £	2016/17 Collection rate %
Council Tax	£2,114,759	4,000	£86,802	4.10%
NNDR	£1,012,310.57	215	£172,202.79	17.01%
Commercial rent	£47,242.87	14	£47,242.87	100.00%
General Income	£102,957.08	160	£21,715.21	21.09%

Debt Write-Offs: Quarter 2 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 second quarter of 2016/17 totalled £254,982. The value and number of cases written off in quarter one and two is provided in Appendix A. The total amount for the year so far is £354,132

2.28 Two hundred and thirty-one debts were written off in quarter two 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 2

Absconded/not traced	Uneconomic to pursue	Debtor Insolvent	Deceased	Other reasons
£71,389.05	£48,433.64	£66,716.35	£45,166.93	£23,275.55
28.00%	18.99%	26.17%	17.71%	9.13%

Absconded/not traced	Uneconomic to pursue	Debtor Insolvent	Deceased	Other reasons
21	105	20	50	35
9.09%	45.45%	8.66%	21.65%	15.15%

(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 2, collection on Council Tax, rents and NNDR are all behind the profiled target. It is extremely important that performance improves to prevent the Council from suffering a financial loss. Elevate have deployed additional resources to improve collection on Council Tax and there is a service improvement plan in place to improve collection on rent.

5.4 The level of write offs at the end of quarter two is £354,152. It is important that bad debts are written off promptly for budgeting purposes so the Council can maintain appropriate bad debt provision.

5.5 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.