

## CABINET

18 June 2019

<b>Title:</b> Debt Management Performance and Write-Offs 2018/19 (Quarter 4)	
<b>Report of the Cabinet Member for Finance, Performance and Core Services</b>	
<b>Open Report</b>	<b>For Information</b>
<b>Wards Affected:</b> None	<b>Key Decision:</b> No
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<b>Accountable Strategic Leadership Director:</b> Claire Symonds, Chief Operating Officer	
<b>Summary</b>  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 fourth quarter of the financial year 2018/19. 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. The report demonstrates that performance is stable and continuing to improve year on year in terms of overall cash collection, though continuing to be impacted by welfare reform measures.	
<b>Recommendation(s)</b>  The 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 fourth quarter of 2018/19.	
<b>Reason</b>  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 fourth quarter of the 2018/19 municipal and financial year and covers the overall progress of each element of the service since April 2018. 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.
- 1.3 The target for Council Tax current year collection remains the same as 2017/18 at 96%. The increase in Council Tax in 18/19 means that to achieve target an additional £5.2m must be collected. The Council Tax arrears target has increased by £180,300 to £2,302,300. The General Income target has increased by 0.2% to 96.2% which approximately equates to an additional £200k.

## 2. Proposal and Issues

- 2.1 Set out in Table 1 below is the performance for quarter four 2018/19 achieved for the main areas of debt managed by Elevate.

Table 1: Collection Rate Performance – Quarter four 2018/19

Type of Debt	Year end target	Quarter 4 target	Quarter 4 Performance	Variance	Actual collected
<b>Council Tax</b>	96.00%	96.0%	95.7%	-0.3%	£73.235m
<b>Council Tax Arrears</b>	£2.302m	£2.302m	£2.498m	+£0.196m	£2.498
<b>NNDR</b>	98.30%	98.30%	98.30%	0.0%	£60,151m
<b>Rent</b>	96.75%	96.75%	96.36%	-0.39%	£96.271m
<b>Leaseholders</b>	98.30%	98.30%	98.97%	+0.67%	£4.276m
<b>General Income</b>	96.20%	96.20%	96.27%	+0.07%	£111.383m

- 2.2 The table below shows amounts collected in comparison to last year. Only rent and leasehold collection decreased. Rent collection was lower due to the decrease in rent charges and the difficulties experienced by tenants as a result of the introduction of Universal Credit. Leaseholders experienced some delays in billing towards the end of the year.

Type of Debt	Collected 2017/18	Collected 2018/19	Increase/Decrease
<b>Council Tax</b>	£68,071	£73,235	£5,164
<b>Council Tax Arrears</b>	£2,328	£2,498	£170
<b>NNDR</b>	£58,413	£60,151	£1,738
<b>Rent</b>	£99,206	£96,271	-£2,935
<b>Leaseholders</b>	£4,530	£4,276	-£254
<b>General Income</b>	£102,728	£111,383	£8,655
<b>Total</b>	£335,276	£347,814	£12,538

### **Council Tax Collection Performance**

- 2.3 Council Tax collection for Quarter 4 is 0.3% below the target.
- 2.4 The amount of Council Tax charged in 2018/19 has increased by £5.3m compared with 2017/18. Alongside this increase in Council Tax charged, Council Tax Support has decreased month on month since the start of 2018/19. By the end of Quarter 4 of 2018/19 CTS payments had dropped by £709k compared with a drop of £381k for the same period in 2017/18.
- 2.5 The CTS caseload continues to drop month on month. At the end of quarter 4 2017/18 CTS made up 15.4% of the total Council Tax charged, this has now decreased to 14.2% in 2018/19.
- 2.6 This reduction is the equivalent of £1,049,829. This is the additional Council Tax that has been charged to Council Tax payers.
- 2.7 The introduction of Universal Credit (UC) has increased administration and caused the issuing of multiple bills in some cases. This is because the DWP notify the Local Authority of a claimant's new application for UC, CTS is subsequently suspended, and this results in the issuing of a new bill with new instalments. If the applicant is successful and receives UC the Local Authority is informed, CTS is re-applied, and a new bill and instalments issued. This has resulted in an increase in contact and a reduction in debt recovery documents, i.e. reminders. In these cases, the bill is inaccurate until UC is granted, and it is not possible to determine whether the resident is behind with payments.
- 2.8 The effects of this are being closely monitored.

### **Council Tax Arrears**

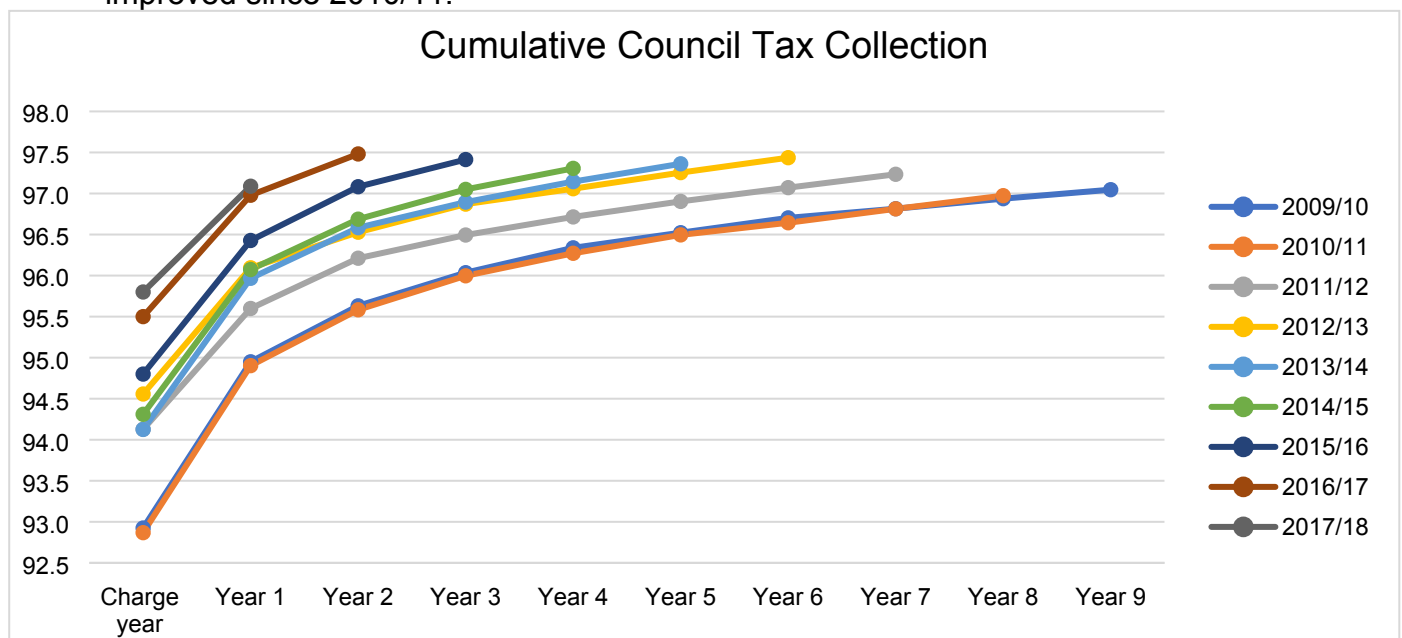
- 2.9 In quarter 4 arrears collection was £239k above the target.
- 2.10 The Council Tax Collection Team continues to face numerous challenges around Council Tax collection. These include the Council Tax Support scheme, the increasing number of properties within the borough, increases in the Council Tax charge and the introduction of Universal Credit.

2.11 The table below shows how Council Tax collection continues long after the initial charge year:

Table 2:

Year	Charge year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
2009/10	92.9	94.9	95.6	96.0	96.3	96.5	96.7	96.8	96.9	97.0
2010/11	92.9	94.9	95.6	96.0	96.3	96.5	96.6	96.8	97.0	
2011/12	94.1	95.6	96.2	96.5	96.7	96.9	97.1	97.2		
2012/13	94.6	96.1	96.5	96.9	97.1	97.3	97.4			
2013/14	94.1	96.0	96.6	96.9	97.1	97.4				
2014/15	94.3	96.1	96.7	97.1	97.3					
2015/16	94.8	96.4	97.1	97.4						
2016/17	95.5	97.0	97.5							
2017/18	95.8	97.1								

2.12 The graph below shows the improved performance in each year, except for 2013/14 when welfare reform had a marked effect on collection rates. Each line shows performance within that year, the bottom line (blue) shows collection for the charge year (the year in which the tax was first raised), the next (orange) shows performance in year 1 (the first year after the charge year) and so on. As can be seen overall collection of Council Tax continues year on year and has steadily improved since 2010/11.



### Business Rates (NNDR) Collection Performance

2.13 The NNDR collection rate for quarter 4 achieved target of 98.3%

## **Rent Collection Performance**

- 2.14 Rent collection for quarter 4 is 0.39% below target, which is the equivalent of £389k.
- 2.15 Analysis of the effects of Universal Credit has shown a considerable increase in arrears since going live at the end of March 2018.
- 2.16 The number of tenants currently in receipt of Universal Credit is 1,138 of which 65% are in arrears. In comparison 25% of tenants still in receipt of Housing Benefits are in arrears.
- 2.17 Rent arrears for those tenants in receipt of Universal Credit now totals £1.1m compared with 820k for those still on Housing Benefit. Whilst the total amount of arrears for those on Housing Benefits remains relatively static, arrears for those in receipt of Universal Credit is increasing on average by £108k per month.

## **Reside Collection Performance**

- 2.18 In addition to collecting rent owed on Council tenancies, Elevate also collects the rent for the Barking & Dagenham Reside portfolio. Quarter 4 collection is 99.71% which is 0.21% above target.

## **Leaseholders' Debt Collection Performance**

- 2.19 Leaseholder collection for quarter 4 is 0.67% above target. Collection rates have been significantly improved despite delays in updating the liable parties in quarters 2 and 3.

## **General Income Collection Performance**

- 2.20 General Income collection for quarter 4 is 0.07% above target. Fluctuations in invoicing can result in higher or lower percentages of collection. However, collection remains strong in this area.

## **Adult Social Care – Collection of Social Care Charges (home and residential)**

- 2.21 Homecare collection for quarter 4 is 1.14% above target.
- 2.22 Residential collection for quarter 4 is 2.2% above target
- 2.23 The debt recovery process for these debts is similar to that for other debts, but with extra recognition given to particular circumstances. 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**

- 2.24 Road Traffic Enforcement collection for quarter 4 achieved target of 14%.

2.25 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). Given the various legal stages required to be exhausted before a warrant can be obtained, this debt is regularly more than six months old before it is released to Elevate for enforcement. Elevate enforce these warrants through Enforcement Agents acting on behalf of the Council and closely monitor the performance of these companies. Overall collection rates on PCNs would be reported by Parking Services.

### **Housing Benefit Overpayments**

2.26 Housing Benefit overpayment collection for quarter 4 is 8.8% above the target of 58%.

### **Enforcement Agent (Bailiff) Performance**

2.27 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.

2.28 Information on the performance of the Enforcement Agents is set out in the table below by type of debt for the fourth quarter of 2018/19.

Table 3: Enforcement Agent Collection Rates – 2018/19

<b>Service</b>	<b>Value sent to enforcement agents £</b>	<b>Total collected by enforcement agents £</b>	<b>2018/19 Collection rate %</b>
Council Tax	£12,430,902	£1,122,746	9.03%
NNDR	£2,673,644	£467,5297	17.49%
Commercial rent	£21,000	£21,000	100%
General Income	£0	£0	N/A

### **Debt Write-Offs: Quarter 4 2018/19**

2.29 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 Chief Operating Officer and subsequently approved for write

off during the fourth quarter of 2018/19 totalled £121,510. The value and number of cases written off in the fourth quarter is provided in Appendix A.

- 2.30 328 debts were written off in quarter 4 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 – 2018/19 Quarter 4**

<b>Absconded/not traced</b>	<b>Uneconomic to pursue</b>	<b>Debtor Insolvent</b>	<b>Deceased</b>	<b>Other reasons</b>
£19,416	£16,797	£37,422	£41,400	£6,475
16%	14%	31%	34%	5%

<b>Absconded/not traced</b>	<b>Uneconomic to pursue</b>	<b>Debtor Insolvent</b>	<b>Deceased</b>	<b>Other reasons</b>
29	167	28	89	15
9%	51%	9%	27%	5%

“Other reasons” include the following categories:

Insolvency

Remitted by court

Debtor outside UK

Prison sentence served in respect of debt

Benefit overpayment – unrecoverable in accordance with Housing Benefit General regulations 1987

The court refuses to make an order in respect of the debt

Statute barred due to age of debt

Small balance

Negotiated settlement of part of debt

Vulnerable

In prison

- 2.31 The figures in Appendix B show the total write-offs for 2011/12, 2012/13, 2013/14, 2014/15, 2016/17, 2017/18 and 2018/19.

### **Arrears**

- 2.32 The table below shows the total unpaid debt for previous years at the end of 2018/19. This shows debts that have not been discharged within the year in which they were charged. Although, every effort is made to ensure payment is secured many debts are still being paid in later years or remain uncollected. Debts shown span from the year 1999/2000 to 2018/2019
- 2.33 All debts are pursued regardless of their age. Many customers have made payment agreements which they continue to pay often long after the debt originally occurred, and this includes payments made to Enforcement Agents where they have agreed

to clear arrears over an extended period of time. Enforcement action is also taken where the new address of a debtor who has moved from the borough is found. With the exception of rent, which is classified as arrears when the tenant is more than one week behind, all other debts are classified as arrears when the debt is unpaid after the current year. Business Rates arrears are often created by retrospective changes made to the Rateable Value of properties by the Valuation Office.

<b>1999/2000 - 2018/19</b>	<b>Arrears</b>
Council Tax	£25,011,376
NNDR	£8,117,641
Rent	£3,211,840
Leaseholders	£407,178
General Income	£4,507,818
<b>Total</b>	<b>£41,255,854</b>

### **3. Financial Implications**

Implications completed by Thomas Mulloy, Chief Accountant

- 3.1 Collecting all debts due is critical to the Council's ability to fund Council services and maintain the Council's cash flow. In view of this, monitoring performance is a key part of the monthly meetings with Elevate.
- 3.2 The monthly meetings between Elevate and the Council mainly focus on the areas where the targets are not being achieved to discuss ways to improve prompt collection of Council revenues.
- 3.3 At the end of quarter 4, Elevate has achieved many but not all of its targets. Performance underachieved in some key collection areas. i.e. Council Tax and Rent.
- 3.4 Performance on Council Tax for quarter 4 was below the target by 0.3%, which is equivalent to a cash shortfall of £229k. Performance on Rent for quarter 4 was below the target by 0.39%, which is equivalent to a cash shortfall of £389k.
- 3.5 The importance of prompt collection is that debts become more difficult to collect as the debt ages and there is a much greater risk of not being able to collect older debts. The Council maintains a provision for Bad Debts from which the cost of uncollectable debts relating to 2017/18 and earlier years are charged, the preventing any impact upon the Councils current revenue income. A periodical review is carried out required to ensure the adequacy of the Council's Bad Debt Provisions adjustments to the provisions are met from the Council's revenue budget and reduce the funds available for other Council expenditure.
- 3.6 The level of write offs for the year as at the end of quarter 4 total £121,510. It is important that bad debts are written off promptly so that the Council can maintain the appropriate level of bad debt provision. The approved write offs can be met from the Council's current Bad Debt Provision.



#### 4. Legal Issues

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

- 4.1 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.
- 4.2 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 should 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.
- 4.3 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.
- 4.4 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 4 - 2018/19
- **Appendix B** – Total debts written off in 2011/12, 2012/13, 2013/14, 2014/15, 2015/16, 2016/17, 2017/18 and 2018/19