

CABINET

18 December 2019

Title: Debt Management Performance and Write-Offs 2019/20 (Quarter 2)	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	For Information
Wards Affected: None	Key Decision: No
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Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	
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 2019/20. 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.	
Recommendation(s) 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 emerging impact of impact of Universal Credit on collection levels and particularly Council Tax and rents.	
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 2019/20 municipal and financial year and covers the overall progress of each element of the service since April 2019. 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 Revenues service is responsible for the collection of Council Tax, Business Rates, Housing Benefit Overpayments, General Income, Rents and for the monitoring of cases sent to Enforcement Agents for unpaid parking debts

2. Performance

- 2.1 The Key Performance indicators are shown below with details of collection rates. Further performance indicators are shown in table 10.

Council Tax

- 2.2 The table below shows the Net Collectable Debit (NCD) for Council Tax including the percentage of the tax collected within the year for the past two years. The overall amount to be collected is increasing by approximately £5m each year due to both the increase in the tax and reduction in Council Tax Support (CTS)

Table 1	Council Tax – Quarter 2		
	2017/18	2018/19	2019/20
NCD (000)	£71,091	£76,524	£81,976
Percentage collected	56.2%	55.9%	55.7%

- 2.3 Universal Credit (UC) remains one of the biggest challenges faced by the Revenues service and delays in payment of UC are resulting in a knock-on delay in payment of Council Tax. The table below shows Council Taxpayers that are claiming CTS and are also receiving UC or legacy benefits. The amount of Council Tax payable by those receiving UC is increasing by an average of £60k per month and there is a difference of 8% in the two collection rates.

Table 2	CTS – Universal Credit	CTS – Legacy benefits
NCD (000)	£1,063	£4,042
Percentage collected	46.9%	54.9%

2.4 The introduction of Universal credit (UC) in April 2018 has had an effect on the debt recovery process. UC has delayed the assessment of Council Tax Support which has in turn moved payment instalments forward. This has created accounts which are not technically behind with payments but are not being charged correctly. Once the CTS has been assessed instalments are recalculated and started from the following month.

2.5 The table below shows the number of recovery documents sent in by the end of quarter 2 for the past 3 years.

Table 3	2017/18	2018/19	2019/20
Reminders	49,085	43,115	44,249
Summonses	10,089	8,755	8,608
Total	59,174	51,870	52,560

2.6 It is estimated that by year end, taxpayers claiming UC will be paying £1.4m in Council Tax. The collection rate in comparison with those still on legacy benefits is 8% lower, which will equate to delayed payment of £114k. The amount of CTS being awarded to taxpayer accounts continues to reduce. The table below shows Council Tax payable, the value of CTS and the percentage of the debt paid by the CTS. The reduction in CTS has resulted in an additional £1.1m being charged to taxpayers. These taxpayers are among the most financial vulnerable residents in the borough.

Table 4	2017/18	2018/19	2019/20
Council Tax	£84,101	£89,527	£94,643
CTS (000)	£13,092	£13,093	£12,736
% of Council Tax paid by CTS	15.6%	14.6%	13.4%
Reduction		1.0%	1.2%
Payable shortfall (000)		£843	£1,174

2.7 To deal with the change to UC the Revenues team has been identifying Council Taxpayers that are experiencing financial distress and has been working closely with Community Solutions to identify the root cause of financial problems and to look to help taxpayers find a resolution. This includes; the awarding of discretionary relief; budgeting advice; payment arrangements which aim to bring the customer back on track, training and employment assistance, and referral to CAB, Job Centre or Social Services.

2.8 The budget for Council Tax discretionary relief this year is £50k. At the end of quarter 2, £19k had been allocated to 22 customer accounts to help them recover from financial hardship.

2.9 The close collaboration between the two teams has ensured that the impact on the collection rate has not been as significant as previously predicted. Although the collection rate at the end of quarter 2 is 0.2% behind last year, the team is confident

that it will recover during the latter part of the year and work continues to improve the current processes and gain a better understanding of the issues faced by our taxpayers.

- 2.10 **Successes** – Council Tax collection remains relatively strong in light of the introduction of Universal Credit last year. It is expected that collection will begin to improve during the second half of the year as the work now underway increases the budgeting skills of taxpayers and ensures they have claimed all the benefits they are entitled to receive.
- 2.11 **Concerns** – Arrears collection is lower than in previous years and there is a concern that annual increases in the tax, reductions in the number of Council Tax Support applicants and continued confusion around Universal Credit will further hamper collection.

3. Rent Collection

- 3.1 As tenants' transition to Universal Credit the amount of housing benefit being paid directly to rent accounts has reduced dramatically. The table below shows the collection rates since 2017/18. It should be noted that the NCD (Net collectable Debit) is projected to year end as rent is charged weekly.

Table 5	Rent collection – Q2		
	2017/18	2018/19	2019/20
NCD (000)	£102,674	£100,367	£101,218
Percentage collected	47.74%	47.67%	49.13%

- 3.2 The Revenue team has reacted to the introduction of Universal Credit by helping residents with the transition and working closely with Community Solutions through our joint work in the Homes and Money Hub. However, as the table below shows the level of arrears for those residents receiving UC continues to increase.

Table 6	Number	In arrears	Percentage in arrears
Residents in receipt of Housing Benefit	7,228	2,245	31.1%
Residents in receipt of UC	2,398	1,638	68.3%

Table 7	Value of arrears	Average arrears
Residents in receipt of Housing Benefit	£707,582	£315
Residents in receipt of UC	£1,841,776	£1,124

- 3.3 As tables 4 and 5 show, residents in receipt of UC are more likely to be in arrears and for higher amounts.

- 3.4 The Rents team has been working closely with Community Solutions to identify residents that require additional support. The Rents team has responded to the challenges of UC by agreeing repayments plans that consider the variable nature and delays in UC payments. This has maintained collection rates and minimised the impact of UC upon collection rates. This two-pronged approach of realistic payment plans and appropriate support is working well.
- 3.5 **Successes** – Rent collection remains relatively strong even though Universal Credit has had an impact on this area of revenue collection.
- 3.6 **Concerns** – Rent has not been increased for a number of years and future increases will put additional pressure on tenants and the Rent team.

4. Leasehold collection

- 4.1 The table below shows the estimated amount charged and paid by leaseholders compared with 2018/19.

Table 8	Leasehold – Quarter 2		
	2017/18	2018/19	2019/20
NCD (000)	£4,541	£4,321	£5,316
Percentage collected	53.57%	52.2%	47.0%

- 4.2 Both the service charge and reserve fund have been increased in 2019/20. The increase in the reserve fund includes some backdating, this has reduced the collection rate in comparison with the previous year.
- 4.3 The General Income team has increased payment this year compared with last, however the size of the increase in service charge, coupled with the backdating of reserve fund charges has meant that it has not been possible to maintain the same percentage of collection as last year.
- 4.4 Customers are being allowed more time to pay any backdated charges and this has reduced the percentage of collection.
- 4.5 **Successes** – the amount collected has been increased compared with last year.
- 4.6 **Concerns** – unexpected increases in service charge. Backdated reserve fund and increases in the service charge causing £1m increase in the collectable amount. Discussions regarding the current target in light of the unexpected increase of £1.1m are taking place between Elevate and the Council.

5. General Income collection

- 5.1 The table below shows the charge raised so far for General Income as well as payment and percentage of collection.

Table 9	General Income – Quarter 2		
	2017/18	2018/19	2019/20
NCD (000)	£36,808	£51,224	£47,379
Percentage collected	92.89%	92.92%	92.92%

5.2 General Income charges can fluctuate year on year and to the end of the second quarter an additional £3.8m has been raised. Even with this large increase the General Income Team has maintained a collection rate which is the same as last year.

5.3 **Successes** – significant increases in revenue collected in the first half of the year

5.4 **Concerns** – lack of a debt management system makes the process labour intensive and the progress of cases through recovery cannot be reported.

6. Fairer Contribution Collection

6.1 The table below shows the charges raised for homecare in 2018/19 and 2019/20.

Table 10	Fairer contribution – Quarter 2		
	2017/18	2018/19	2019/20
NCD (000)	£534	£525	£415
Percentage collected	65.36%	65.68	69.40%

6.2 The figures above are also included as part of the General Income figures shown in table 7. The amount charged in homecare has reduced this year compared with last year and the collection rate is 3.7% higher.

6.3 **Successes** – improved liaison with Social Services to better deal with queries.

6.4 **Concerns** - lack of a debt management system makes the process labour intensive and the progress of cases through recovery cannot be reported.

7. Commercial Rent

7.1 The table below shows the amount raised for Commercial Rent for 2018/19 and 2019/20.

Table 11	Care charge raised	Paid	Percentage
2018/19 (000)	£2,250	£2,223	98.75%
2019/20 (000)	£2,565	£2,411	94.01%
Variation (000)	£315	£188	-4.74%

- 7.2 Commercial rent raised this year has increased in comparison with last year. Although the percentage of collection is lower than at the same time in 2018/19, resource has been allocated to ensure collection increases.
- 7.3 Successes – closer working with property services to identify arrears and take appropriate action
- 7.4 Concerns - lack of a debt management system makes the process labour intensive and the progress of cases through recovery cannot be reported.

8. Performance

8.1 Performance against targets is shown below:

Table 12	Service level	Target	Variation from target
Council tax in year collection	55.7%	55.9%	-0.2%
General Income collection in year	92.92%	92.92%	0.00%
Rents	49.13%	49.28%	-0.15%
Leasehold Income collection %	47.00%	52.48%	-5.48%
Fairer contribution (homecare in year)	69.40%	65.68%	+3.72%
NNDR in year collection %	55.7%	55.6%	+0.1%
Commercial Rent %	94.01%	95.10%	-1.09%
Council Tax arrears £	£1,400,724	£1,460,965	£60,241
Former Tenant arrears	£110,317	£103,000	£7,317
Road Traffic Enforcement %	15.6%	14.0%	+1.6%
HB overpayment %	85.10%	61.2%	+23.90%
Reside	99.71%	99.50%	+£0.21%

9. Arrears

- 9.1 The tables below show arrears for quarter 2 and the current level of debt recovery activity. The debt recovery activity shows the current action being undertaken; this does not mean that other actions have not been taken in the past. The databases (Academy) for Council Tax, NNDR and Housing Benefit overpayments do not report previous actions. General Income does not have a debt management system and so debt recovery action cannot be recorded, and the process remains manual. The rent system (Capita) is able to report the debt recovery position, however this requires further development of reports and will be shown in quarter 3.
- 9.2 In most debt streams shown in table 13 the arrears will show as higher in 2019/20 than in 2018/19. However, Council Tax was increased in 2018/19 and as shown above, CTS reduced, therefore the uncollected amount will appear as higher. General Income arrears can fluctuate dependent upon the amounts raised by issuing departments.

9.3 The definition of arrears is different for each of the revenue streams. The table below shows the amount of unpaid debt at the end of the second quarter compared with the same time in 2018/19.

Table 13	2018/19 (000)	2019/20 (000)	Variation (000)	Description
Council Tax	£21,939	£23,499	£1,561	Debts raised and unpaid which are not for the current year
Housing Benefit overpayments	£26,276	£27,224	£948	Currently outstanding for all years
NNDR	£7,404	£6,637	£767	Debts raised and unpaid which are not for the current year
Leasehold	£283	£240	-£43	Debts raised and unpaid which are not for the current year
General Income	£6,651	£9,096	£2,445	Debts raised and unpaid which are not for the current year
Homecare (part of General Income arrears)	£702	£940	£238	Debts raised and unpaid which are not for the current year
Rent	£3,181	£3,874	£693	Rent that has not been paid for 1 week or longer

10. Council Tax Arrears

10.1 Council Tax arrears are defined as any debt that remains unpaid after the end of the financial year in which it was raised.

10.2 The recovery of Council Tax continues after the year has ended. Although it is not possible to collect all Council Tax charged in the financial year, replacing Council Tax Benefit with Council Tax Support, welfare reform and more recently Universal Credit have made collection within year more challenging. Therefore, some Taxpayers will still be paying off Council Tax from previous years and are unable to catch up.

10.3 The table below shows the debt recovery status of the arrears. There will be some debts that have not entered the recovery process as they are newly created or are being disputed.

Table 14

Action	Balance (000)	Number of liability orders
Enforcement Agent	£10,466	16,645
Attachment to benefits or earnings	£1,002	2,805
Returned by Enforcement Agent	£2,219	3,114
Awaiting write off	£2,427	3,867
Payment arrangement	£671	1,274
Absconded	£2,340	4,227
Other	£2,213	3,854
Total	£21,338	35,786

- 10.4 Liability orders are obtained at court and allow further enforcement action, i.e. Enforcement Agents. Taxpayers often will often have more than one liability order as normally they are obtained for each unpaid year. There are 35,786 liability orders but there 16,834 individual accounts. Therefore, there is an average of 2 liability orders per taxpayer.
- 10.5 The process of sending cases to Enforcement Agents is automated, although pre checks are made. However, all other actions are manual, this includes agreeing payment arrangements, attachments to benefits or earnings, bankruptcy and committal. Current resource does not allow all cases to be immediately pursued. Debts that have been designated as uncollectable are coded for write off, but again the process is manual and is not prioritized over enforcement action.

11. Housing Benefit Overpayments Arrears

- 11.1 Where a housing benefit overpayment has been created the debt is immediately pursued. The table below shows the current debt recovery status of those overpayments

Table 15

Action	Balance (000)	Cases
Payment arrangement	£11,178	8,595
Actively being managed	£8,238	4,857
Awaiting recovery action	£7,808	6,287
Total	£27,224	19,739

- 11.2 Those debt being actively managed covers several different actions, including the use of debt collection agencies and attachments to benefits or earnings.
- 11.3 The process of debt recovery is manual, very little automation is available and debts are prioritized by size and age.
- 11.4 As many debtors have been or are still in receipt of benefit, the process of debt collection can be relatively slow with small payments being made towards often large debts.

12. NNDR

- 12.1 Business Rates arrears can fluctuate considerably. Appeals again rateable values are sometimes made many years after the year of the charge. This means that debts can sometimes be increased or decreased by hundreds of thousands of pounds. Although arrears are pursued, collection is shared with the London pool.

13. General Income (including Homecare) arrears

- 13.1 All General Income is recorded using Oracle which has no debt management system. It is therefore not possible to determine where each debt is within the debt recovery process.

13.2 The arrears figures show in table 7 represents 7,580 invoices and each must be examined manually to determine the current and next best course of action. Therefore, the General Income team works from spreadsheets of invoices and relies on knowledge and experience of each area to determine recovery priorities.

14. Rent arrears

14.1 The table below shows the breakdown of rent arrears. Rent arrears are designated as any tenancy that is one week or more in arrears.

Table 16

Arrears range	Cases	Value
Less than £250	3,454	£283,959
£250 to £500	780	£279,877
£500 to £1,000	696	£502,661
£1,000 to £3,000	922	£1,609,484
£3,000 to £5,000	187	£698,772
Over £5,000	77	£499,431
Total	6,116	£3,874,184

14.2 Over 50% of residents in arrears are still in receipt of Housing Benefit or are now claiming Universal Credit. The majority of tenants in arrears are less than £250 behind with their rent, which is the equivalent of 1 to 3 weeks. Higher debts are managed by the Rents team either by court order or by payment arrangements. Improving liaison with Community Solutions is helping to reduce court action and help residents to control their budgets.

14.3 The arrears figures tend to fluctuate month on month because Universal Credit is paid to tenants monthly and so for 3 weeks out of every 4, they can be in arrears.

14.4 This has increased the complexity of cases being dealt with by the Rents Team and prompted a revision to the recovery process. The new process focuses attention more on identifying those falling into arrears and then assisting or working with Community Solutions to find a resolution.

15. Costs

15.1 The table below shows the amount of Council Tax Court costs raised in this year compared with the same time last year.

Table 17	2018/19	2019/20
Raised	£1,081,083	£1,080,306
Withdrawn	£426,683	£670,750
Payable	£654,400	£409,557
Paid	£399,938	£344,360
Percentage collected	61.1%	84.1%

15.2 Council Tax costs represent most costs charged to residents for non-payment of debt. Every summons issued for non-payment attracts an additional cost, to the resident, of £123.

- 15.3 However, not all summonses result in a court hearing as taxpayers may agree to pay the charge by revised instalments. Similarly, if there is reason to believe the taxpayer is vulnerable the summon and costs will be withdrawn.
- 15.4 More summonses have been withdrawn this year to date than last. Increases in the tax, coupled with the introduction of Universal Credit has put additional pressure on taxpayers. This makes it more likely they will miss instalments and receive a summons.

16. Financial Implications

Implications completed by Thomas Mulloy, Chief Accountant

- 16.1 Collecting all debts due is critical to the Council's ability to fund Council and maintain the Council's cash flow. In view of this, monitoring performance is a key part of the monthly meetings with Elevate.
- 16.2 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,
- 16.3 At the end of quarter 2, Elevate has achieved many but not all of its targets Performance underachieved in some key collection areas. i.e. Council Tax and HB Overpayments.
- 16.4 Performance on Council Tax for quarter 2 was below the target by 0.2%, which is equivalent to a cash shortfall of £194k, Leasehold collection was down 5.48% which is the equivalent of £291k
- 16.5 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

17. Legal Issues

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

- 17.1 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.
- 17.2 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.

- 17.3 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. 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: None.