CABINET

21 June 2022

Title: Debt Management Performance 2021/22 (Quarter 4)	
Report of the Cabinet Member for Finance, Growth and Core Services	
Open Report	**For Information**
Wards Affected: None	**Key Decision:** No
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Accountable Director: Stephen McGinnes, Director of Support and Collections	
Accountable Strategic Leadership Director: Judith Greenhalgh, Strategic Director of Community Solutions	

Summary

This report sets out the performance of the Revenues service in the collection of revenue and debt management for the second quarter of the financial year 2021/22. 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 Covid-19 and welfare reform measures.

Recommendation(s)

The Cabinet is recommended to:

(i) Note the performance of the debt management function carried out by the Council's Revenues service, including the improvement of collection rates and the continued recovery techniques applied to reduce the impact of the COVID-19 pandemic;

(ii) Note that a review of the number of businesses that qualified under the Council's Covid-19 Additional Relief Fund (CARF) policy, approved by Minute 94 (22 March 2022), meant that the level of Business Rates relief awarded to the 716 qualifying businesses was able to be increased from 90% to 100% for the 2021/22 financial year, as detailed in section 4 of the report; and

(iii) Note the arrears project started in April 2022, as detailed in section 11 of the report.

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. This report sets out performance for the fourth quarter of the 2021/22 municipal and financial year and covers the overall progress of each element of the service since April 2021.

1.2. 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. Financial impacts upon residents

2.1. Data from Government shows a continued reduction in residents claiming Universal Credit (UC) since its peak at the beginning of 2021/22. The March figure is provisional and is likely to reduce as DWP have historically overestimated unconfirmed figures.

Quarterly	People on Universal Credit
Mar-20	14,544
Jun-20	27,866
Sep-20	29,405
Dec-20	32,019
Mar-21	32,681
Jun-21	32,441
Sep-21	32,117
Dec-21	30,989
Mar-22	30,292

3. Council Tax

3.1. Current Year Collection Rates

Council Tax – current year		
Period	**Increase/decrease 2020/21 %**	**Increase/decrease 2020/21 £**
Quarter 4	+0.5%	+£421k

Council Tax – current year		
Period	**Increase/decrease 2019/20 %**	**Increase/decrease 2019/20 £**
Quarter 4	-2%	-£1.844k

3.2. Arrears Collection

Council Tax		
Period	**Increase/decrease 2020/21 £**	**Increase/decrease 2019/20 £**
Quarter 4	+£949k	+£193k

3.3. Collection rates reduced in the final quarter of 21/22. At the end of quarter 3, collection rates were 1% above 2021/22 but decreased by 0.5% in the final 3 months of the year.

3.4. Whilst both current year and arrears collection both exceeded 2021/22, this reduction is of concern and is likely to linked to the current cost of living crisis.

3.5. Whilst the number of residents in receipt of UC continues to gradually decrease and taking into account those that would have naturally migrated, this is still a significant increase in those residents' requiring assistance.

3.6. It was estimated that recovery from the pandemic, in collection terms, would mean a return to 2019/20 levels within 12-18 months. It has become increasingly clear that the cost-of-living crisis will delay this recovery by a yet to be determined period of time.

3.7. This crisis and the slowing of recovery will result in further arrears and potential hardship for residents.

3.8. In exceptional circumstances, discretionary relief can be applied and the table below shows the average relief awarded each quarter during 2021/22.

2021/22	Granted
April	£4,089
May	£5,128
June	£6,351
July	£5,285
August	£4,299
September	£3,559
October	£4,219
November	£4,893
December	£4,621
January	£2,635
February	£4,458
March	£8,816
TOTAL	£58,352

3.9. As can be seen, the amount of relief granted in March 2022 has doubled compared with the previous month.

3.10. In total 514 applications were submitted in 2021/22 with 174 residents awarded some relief. Most awards were granted on the basis of ill health or as a result of a traumatic event, e.g. domestic violence.

3.11. Residents refused relief will have had additional costs removed, been given advice to ensure their benefits were maximised and an affordable repayment plan agreed.

3.12. Applicants are still being referred to the Homes and Money Hub where they receive the following essential support:

- Budgeting assistance (income and expenditure)
- Training advice
- Referral to the Job shop
- Maximisation of benefit entitlement
- Tenancy sustainment

4. Business Rates

4.1. Current Year Collection Rates

Business Rates		
Period	**Increase/decrease 2020/21 %**	**Increase/decrease 2020/21 £**
Quarter 4	+8%	+£4,410,082

Business Rates		
Period	**Increase/decrease 2019/20 %**	**Increase/decrease 2019/20 £**
Quarter 4	-3.1%	-£1,736,526

4.2. Whilst not returning to 19/20 levels, collection rates have recovered significantly in 21/22. However, it should be noted that in 21/22 retail, hospitality and leisure businesses were granted 100% relief for the first quarter, reducing to 66% for the remainder of the year. This relief has now been reduced to 50% in 2022/23.

4.3. The Government ended all grants to business via Local Authorities in March 2022. Over the past 2 years a total of 8,690 payments with a value of £46.3m has been paid to businesses over 35 different schemes

4.4. The Government introduced a new scheme in 2021/22 called Covid-19 Additional Relief Fund (CARF) available to businesses that have not received retail, hospitality, leisure, or nursery reliefs in 21/22. The amount of relief available is £4.5m and the scheme is discretionary.

4.5. In March 2022 a report and draft policy was presented to Cabinet estimating the number of businesses that would receive the relief and what percentage reduction they would be granted. Cabinet approved this policy giving 90% to 791 businesses (Minute 94, 22 March 2022). However, upon preparing to award this relief the data was rechecked, and some businesses were found to not qualify. This was because they either should have received retail, hospitality, and leisure relief in 2021/22 which disqualified them from the scheme or that the property descriptions in the business rates system were incorrect.

4.6. Upon revision of the data the number of qualifying businesses was found to be 716, which allows an award of 100% rather than 90%. This relief is fully funded by Government and there is no financial impact upon the Council.

5. Rents

5.1. Collection Rates

Rents		
Period	**Increase/decrease 2020/21 %**	**Increase/decrease 2020/21 £**
Quarter 4	-1.4%	£1,483,420

Rents		
Period	**Increase/decrease 2019/20 %**	**Increase/decrease 2019/20 £**
Quarter 4	-1.8%	£1,844,693

5.2. The cumulative effect of tenants transitioning from housing benefit to UC has reduced the percentage of collection in comparison to previous years.

5.3. The delay in payment of universal credit results in a 4-5 week wait for tenants to receive payment creating arrears to build over that period. In some cases, the tenant will pay those arrears upon receipt of their payment from the DWP, but in many cases they are unable to do so.

5.4. Compared with 2021/22 an additional £3.6m of rent has been collected however housing benefit has reduced by 2.6m.

5.5. The pandemic resulted in a £2.6m increase in arrears by the end of 2020/21, with £6.1m carried forward to 2021/22. At the end of 2021/22 arrears have increased to £6.4m.

5.6. Although the pandemic continued into 2021/22 and the cost-of-living crisis has become a significant issue, although arrears have not increased significantly they have not reduced. This would indicate that tenants have been helped to start paying their rent but are unable to significantly reduce their arrears caused by the pandemic.

6. Reside

6.1. During the latter part of 2020/21 the methodology used to measure collection rates was reviewed. As a result, a more accurate measurement was devised and applied.

6.2. The table below shows performance against target for 2021/22.

RESIDE		
Period	**Increase/decrease 2020/21 %**	**Increase/decrease 2020/21 £**
Quarter 4	+1.2%	+£137,612

6.3. Reside tenants have been affected by the pandemic and, as a result, arrears have increased. However, tenants have been contacted and have agreed repayment plans.

7. General Income

7.1. Collection Rates

General income		
Period	**Increase/decrease 2020/21 %**	**Increase/decrease 2020/21 £**
Quarter 4	-1.4	-£2,160,277

General income		
Period	**Increase/decrease 2019/20 %**	**Increase/decrease 2019/20 £**
Quarter 4	-8.6%	-£12,990,352

7.2. General Income collection frequently varies depending on when invoices are issued during the quarter. The introduction of E5 replacing Oracle has meant that no debt recovery action was possible in March.

7.3. All unpaid debtors are known and are expected to make payment.

8. Homecare – Adult Social Care

8.1. Collection Rates

Homecare		
Period	**Increase/decrease 2020/21 %**	**Increase/decrease 2020/21 £**
Quarter 3	+1.1%	+£25,611

8.2. Due to the cleansing exercise in Oracle, some invoices attributed to Homecare have been moved to different issuing departments and renamed. This has made collection comparisons problematic and so collection rates shown in this report will have a level of error.

8.3. Debt recovery action was not possible in March due to the introduction of E5.

9. Housing Benefit Overpayments

9.1. Collection Rates

Housing Benefit Overpayments		
Period	**Increase/decrease 2020/21 %**	**Increase/decrease 2020/21 £**
Quarter 4	-1.1%	-£291,727

9.2. Housing benefit overpayment collection has reduced because of the increase in debtors applying for UC and an overall reduction on overpayments being raised.

9.3. A main source of Housing Benefit overpayment income is via deductions from ongoing Housing Benefit or directly from earnings. The increasing number of Housing Benefit claimants that have transitioned to UC has had a direct effect upon collection.

9.4. The DWP prioritises deductions from UC and Housing Benefit overpayments are given a lower priority, below mortgage, rent, child maintenance, council tax, gas, electricity, fines etc.

9.5. The creation of overpayments has also reduced significantly over the past two years.

9.6. The team is currently focusing upon identifying debtors that would normally be paying via these deductions to pursue direct payment.

10. Collection rates

10.1. The table below shows collection rates for quarter 4 (percentages are rounded to 1 decimal place).

Collection Area	**2021/22**	**2020/21**	**Variation**
Council Tax current year	93.6%	93.1%	+0.5%
Council Tax arrears	£2,476,171	£1,527,092	+£949,079
Rents	92.2%	93.60%	-1.44%
Business Rates	94.8%	86.8%	+8%
General Income	87.8%	89.2%	-1.4
Leasehold	87.7%	91.3%	-3.6%
Commercial rent	87.4%	83.3%	+4.1%
Homecare	50.9%	49.5%	+1.4%
Housing Benefit Overpayment	14.1%%	15.3%	1.1%
Reside	96.5%	95.2%	+1.2%

11. Arrears project

11.1. At the end of the Elevate contract, a build-up of arrears across revenues streams had occurred. The Elevate contract focussed primarily upon collection and not the management of arrears and, in particular, the writing off of debt that was no longer collectable.

11.2. It was intended that upon its return to LBBD, the revenues team would begin a project to review these arrears with the intention of either collecting or writing off older debts. In this way some additional revenue may have been generated but also a cleaning of databases would allow for a more accurate assessment of arrears. However, this was delayed due to the pandemic.

11.3. Currently, across all revenue streams a total of £98m is outstanding and can be classified as arrears. After a review of these debts, £58m has been identified as appropriate to recover or to write off.

11.4. The vast majority of debts are for former residents and are over three years old, and a 100% provision has already been allocated. Therefore, the writing off of these debts will have not financial impact upon the Council.

11.5. The project will take between 12 and 18 months to complete and in cases where collection may be possible, they will be handled with the utmost sensitivity given the nature of some debts and the current financial climate.

12. Financial Implications

Implications completed by: Nurul Alom, Finance Manager

12.1. Compared to the same period last year, collection rates are higher across most categories of debt, 2019/20 pre-pandemic collection rates are slightly higher in most areas, but collection rates are gradually improving. This is due to the impact of the Covid-19 pandemic on the ability of residents and businesses to pay, given their reduced financial circumstances.

12.2. The Revenues team has been working closely with the wider Community Solutions to identify residents in financial difficulty and to provide support to assist in tackling financial problems and managing debt. In addition, a new data led approach is being taken which is more targeted. It is anticipated that the introduction of community banking in the borough will accelerate the wider support given to residents in financial difficulty and managing debt.

12.3. Collecting all debts due is critical to funding the Council and maintaining cashflow. Monthly performance monitoring meetings with the Strategic Director of Community Solutions focus on where the targets are not being achieved to improve prompt collection of Council revenues.

12.4. The Council maintains a bad debt provision which is periodically reviewed. Increases to the provision are met from the Council's revenue budget and reduce the funds available for other Council expenditure.

12.5. The arears project will review historic debt and where these are recoverable the necessary action will be taken. Where debt is no longer recoverable, they will be written off. Vast majority of these debts are more than three years old, and a 100% provision has been allowed for these debts.

13. Legal Implications

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

13.1. Monies owned 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.

13.2. 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 often suspend the possession order on condition the tenant contributes to their arrears.

13.3. 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.

13.4. As observed the Covid 19 pandemic is having a detrimental effect on debt management with a combination of severe pressures on households and businesses. Even though the vaccination programme as contributed to a recovery it is anticipated that it will not be until well into autumn before economic normality is approached and many businesses and activities may not return in the same form.

13.5. The inevitable debt management implications are that with the legal enforcement options being limited by Government measures preventing the resort to eviction as a means to enforcement of debt for all of the financial year 2020 to 2021 because of the national Covid 19 crisis, the short-term debts and more particularly irrecoverable debts inevitably increased despite the very best efforts of all the teams involved. Now this last option has been restored the message that debts will be pursued in due course is being pressed home however such action is tempered with targeted efforts to help citizens and businesses successfully manage their debts.

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

List of appendices: None