

## CABINET

18 June 2024

<b>Title:</b> Debt Management Performance 2023/24 (Quarter 4) and Updated Debt Management Policy	
<b>Report of the Cabinet Member for Finance, Growth and Core Services</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> None	<b>Key Decision:</b> No
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<b>Accountable Strategic Leadership Director:</b> Jo Moore, Strategic Director of Resources	
<b>Summary</b>  This report sets out the performance of the Collections service in the collection of revenue and debt management for the fourth quarter of the financial year 2023/24.  The Council's Debt Management Policy has been reviewed and updated to add clarity to the process and is attached at <b>Appendix A</b> . Updates to the policy include: <ul style="list-style-type: none"><li>• Recovery process flow charts for all debts</li><li>• Care collection process</li><li>• Inclusion of Rents and Parking processes</li><li>• Debt management &amp; write off process.</li></ul>	
<b>Recommendation(s)</b>  The Cabinet is recommended to: <ul style="list-style-type: none"><li>(i) Note the performance of the debt management function carried out by the Council's Collection service, including the improvements in collection rates and the reduction in arrears since the start of the year;</li><li>(ii) Note the reduction in bad debt provision of £7.4m, primarily due to the write-off of non-recoverable historic debt arrears; and</li><li>(iii) Approve the updated Debt Management Policy 2024, as set out at Appendix A to the report.</li></ul>	
<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. This report sets out performance for the fourth quarter of the 2023/2024 financial year and covers the overall progress of each service element since April 2023.
- 1.2. The Collection 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.

### Council Tax Collection

- 1.3. Council Tax collection for 2023/24 finished at 93.54% compared with 93.56% at the end of 2022/23. This is a shortfall of £21k.
- 1.4. Arrears collection increased by £397k compared with 2022/23.
- 1.5. In September 2022 a total of £750k was credited to accounts as a result of the government energy rebate scheme. This increased collection in 2022/23 by 0.8%, these payments were not made in 23/24, however collection rates have been maintained in 23/24.
- 1.6. Council Tax collection peaked in 2019/20 at 95.2%, however collection in 2020/21 reduced by 2.5% to 92.8% due to the pandemic. Collection partially recovered in 2021/22 finishing at 93.6% but the cost-of-living crisis has prevented further increases.
- 1.7. The percentage of collection is measured to the end of the current year however collection of Council Tax does not end on the 31st of March. The table below shows collection for each year since 2018/19 and the percentage collected by the end of 23/24. Yellow denotes the in-year percentage collected.

CHARGE YEAR	COLLECTION YEAR						YEARS
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	
2018/19	94.7%	96.7%	97.1%	97.4%	97.6%	97.7%	5 years
2019/20		95.2%	96.2%	96.9%	97.2%	97.4%	4 years
2020/21			92.8%	95.1%	96.0%	96.4%	3 years
2021/22				93.6%	95.5%	96.1%	2 years
2022/23					93.6%	95.5%	1 year
2023/24						93.5%	

- 1.8. On average a further 2.6% is collected five years after the end of each year. However, the reduction in collection in 2020/21 set collection back by the equivalent of two years and due to the ongoing cost of living crisis returning to an in-year collection rate over 95% continues to be difficult.

### Council Tax Arrears

- 1.9. Arrears have reduced significantly in 2023/24, with debts prior to 2023/24 reducing from £26.3m to £16.9, a £9.3m or 36% reduction.

<b>1999/00 - 2022/23</b>	
	<b>Arrears</b>
CFWD	£26,362,521
Charge changes	£294,168
Costs raised	£46,717
Arrears & costs written off	-£6,056,329
Paid (arrears & costs)	-£3,652,722
<b>Balance</b>	<b>£16,994,355</b>

- 1.10. The focus of arrears work over the past two years has been centred around reviewing closed accounts to trace and collect or write off uncollectable debts. These are the debts not reviewed by Elevate.
- 1.11. The work carried out to reduce bad debts has significantly reduced the Council Tax bad debt provision, decreasing it from £13m to £10.75m, a reduction of £2.26m.
- 1.12. The table below shows the breakdown of debt by year with most of the debt now less than three years old.

<b>Year</b>	<b>Total</b>	<b>Percentage of total</b>
<b>1999/00</b>	£5,599	0.0%
<b>2000/01</b>	£10,219	0.0%
<b>2001/02</b>	£10,868	0.0%
<b>2002/03</b>	£14,410	0.1%
<b>2003/04</b>	£22,662	0.1%
<b>2004/05</b>	£44,776	0.2%
<b>2005/06</b>	£48,896	0.2%
<b>2006/07</b>	£72,923	0.3%
<b>2007/08</b>	£127,744	0.6%
<b>2008/09</b>	£173,230	0.8%
<b>2009/10</b>	£195,316	0.9%
<b>2010/11</b>	£178,268	0.8%
<b>2011/12</b>	£183,154	0.8%
<b>2012/13</b>	£201,585	0.9%
<b>2013/14</b>	£269,475	1.2%
<b>2014/15</b>	£312,728	1.4%
<b>2015/16</b>	£403,505	1.8%
<b>2016/17</b>	£503,375	2.3%
<b>2017/18</b>	£668,132	3.0%
<b>2018/19</b>	£953,741	4.3%
<b>2019/20</b>	£1,435,849	6.5%
<b>2020/21</b>	£2,132,529	9.6%
<b>2021/22</b>	£3,137,241	14.2%
<b>2022/23</b>	£4,314,974	19.5%
<b>2023/24</b>	£6,677,645	30.2%
<b>Totals</b>	<b>£22,098,845</b>	

## Improvements made in 2023/24

- 1.13. To maintain collection rates the Council Tax team have been transforming communication and processes. The way customers contact the service has changed considerably in the last four years. The service deals with approximately 50k pieces of written communication from customers each year. Before the pandemic 48% of customers made contact via email increasing to 72% in 2023/24. This has increased customer expectations regarding response times placing a greater pressure on the service.
- 1.14. To meet this increased demand as well as combat the risk to collection rates imposed by the cost of living crisis the team have introduced the following improvements and plan to improve further in 2024/25.
- **Text and email contact** – Texts and emails now link to a landing page with links to online account management, including moving in and out, discounts applications, methods of payment, payment arrangements as well as sign posting to support.
  - **Customer queries** – Customers can now complete an online form to query any aspect of their bill. The form guides customers through a simple set of questions and removes the need to phone or email the service.
  - **Direct debit** – The Direct Debit campaign this year increased Direct Debit payers to 57%, a 1.8% increase or the equivalent of an additional 1,400 payers.
  - **Enforcement** – The Legal team have been assisting with pursuing some larger unpaid debts.
  - **Legal team** – The Legal team have been engaged to give a dedicated resource to taking bankruptcy, committal, or orders on properties action. This additional resource and legal expertise will increase collection in 24/25 and debtors that have been deliberately avoiding payment will be prosecuted.

## Improvements planned in 2024/25

- **Robotic Automation and AI** - The Council Tax team not only collect Council Tax they maintain a database of over 80k properties. To ensure that bills are accurate 95% of the team are often dedicated to this task. Robotics will be brought in to assist in 24/25, they will initially undertake repetitive database maintenance tasks, freeing staff to pursue unpaid debts. Eventually they will be used as part of the collection process. On a case-by-case basis they will gather information from other databases, interpret and present intelligence to the collection officer, this is a task that when done manually can take several hours.
- **Contact Centre** – in 2024/25, the Contact Centre will introduce AI VoiceBots; these are automated conversational agents powered by artificial intelligence technology. They are designed to interact with customers over the phone using natural language processing (NLP) and speech recognition capabilities.

They can understand spoken queries from callers and provide relevant responses or assistance without the need for human intervention. These will be introduced to handle simpler queries such as providing information on making payments, registering as a new resident, and updating change of circumstance, freeing up resources for the Council Tax team to concentrate on pursuing non-payment and enforcement actions.

The current integrated chatbot (messaging function) currently integrated on the website currently handles queries for payments and allows residents to pay online vs. ringing through. The AI VoiceBot will take that one step further. Additionally, there will be a greater integration of customer service and Council Tax functions, with the Contact Centre receiving enhanced training to handle various tasks including emails, correspondence, and online transactions, thereby increasing overall efficiency and effectiveness.

## 2. Business Rates

- 2.1. Business rates collection for 2023/24 finished 0.2% above last year at 96.7%. However, business rates for schools are being paid for by Government and there was a delay in March, had this been paid the collection rate at year end would have been 97.1%. These payments will be received in 2024/25.

### Arrears

- 2.2. Arrears unpaid for debts prior to 2023/24 have reduced by 50% or £5.9m.
- 2.3. The focus of the team over the past two years has been to identify businesses that have not paid and to pursue payment or to establish if the business is no longer trading and to write off any uncollectable debts. These are debts that were not reviewed by Elevate.

<b>1999/00 - 2022/23</b>	
	<b>Arrears</b>
<b>CFWD</b>	£11,780,406
<b>Charge changes</b>	£2,178,857
<b>Costs raised</b>	£26,150
<b>Arrears &amp; costs written off</b>	-£4,262,219
<b>Paid</b>	-£3,784,859
<b>Balance</b>	£5,938,335

<b>Year</b>	<b>Arrears</b>	<b>Percentage of total arrears</b>
2000/01	£0	0%
2001/02	£0	0%
2002/03	£990	0%
2003/04	£0	0%
2004/05	£8,821	0%
2005/06	£10,969	0%
2006/07	£11,290	0%
2007/08	£6,397	0%
2008/09	£65,077	1%
2009/10	£35,919	0%

2010/11	£89,530	1%
2011/12	£88,476	1%
2012/13	£95,477	1%
2013/14	£95,694	1%
2014/15	£109,504	1%
2015/16	£103,732	1%
2016/17	£235,953	3%
2017/18	£265,961	3%
2018/19	£511,889	6%
2019/20	£679,767	8%
2020/21	£1,330,647	16%
2021/22	£939,617	11%
2022/23	£1,252,626	15%
2023/24	£2,422,610	29%
<b>Totals</b>	<b>£8,360,944</b>	

2.4. The work carried out to reduce bad debts has significantly reduced the business rates bad debt provision, decreasing it from £9.1m to £5.7m, a reduction of £3.4m.

### 3. Rents

3.1. Rent collection for 2023/24 was 100.26%, 2.01% above 2022/23.

3.2. Rent arrears have gradually decreased throughout the year. The table below shows the quarterly collection rates and the value of arrears.

	<b>Collection %</b>	<b>Arrears</b>
Quarter 1	97.20%	£9,321,826
Quarter 2	98.73%	£9,333,450
Quarter 3	99.68%	£9,247,472
Quarter 4	100.26%	£8,667,086

3.3. To make the best use of resources in the targeting of action for arrears, the service commenced a trial of new software (Rentsense) from December 2023. This allows for the profiling of tenant payment history and early intervention on cases moving into arrears, at risk of moving into arrears or failing to make the required progress to reduce existing arrears. The new software provides this information in a live environment and broken down by geographical 'patch' to prioritise tasks for individual officers, with enhanced reporting on the progress and impact of interventions. The pilot has been effective and further improvements to collection over the next period are expected.

3.4. Improvement have also been achieved through an increase in customer contact. This includes an increase in formal recovery letters sent (103% increase on same period 22/23) and targeted activity including door knocking campaigns with residents who had not engaged and had significant arrears.

### 4. Reside

4.1. Reside collection for 2023/24 was 92.74%, this is 3.37% below last year.

- 4.2. Collection has been impacted by key legacy issues outside of the control of the Rents Team which are now being addressed.
- 4.3. Following the case of Croydon v. Kalonga which started in 2017 and related to the possession process for Fixed Term Tenancies, the service received an instruction from Legal Services in 2020 not to take recovery action pending a Supreme Court decision, which was made in 2022, and subsequent legal advice. That advice was received, and recovery proceedings recommenced from July 2023. The advice created separate recovery processes for Fixed Term and Assured Shorthold Tenancies. While this has enabled recovery to recommence, this means any opportunities for automation of process are limited.
- 4.4. Since July 2023 (recommencement of recovery action) to end of March 24 344 recovery letters have been issued to residents in arrears, 38 of these effectively a final warning before legal action commences. There are currently 23 cases where possession is being sought with Legal Services, including 3 cases where possession orders have already been obtained. Legal Services are applying for warrants in these cases.
- 4.5. An exercise has been undertaken using credit referencing data to trace and recover arrears from former tenants, with 90 former tenants owing £330k. Where tenants are traced and payment cannot be secured, legal action will be commenced. This work is on-going.
- 4.6. Whilst recovery is now being actively pursued, progress continues to be delayed due to the number of manual checks required before notices can be issued. As well as the twin-track processes for Fixed Term and ASTs, there are also 9 cases at legal action stage where the tenancy agreement was signed-up in the wrong Reside company name. Counsel advice has been obtained and further Notices need to be served on residents before possession proceedings can be commenced. These Notices have been drafted and are being served as of April 2024 with possession to be sought following this.
- 4.7. As a result of decisions taken early on, not all Reside companies were set up to be recognised within the housing, banking and financial systems. This prevented the offer of standard payment options such as automated telephone payments, online payments and Direct Debit. Many tenants were left with the only option to call the office each month/week during working hours and speak to a member of staff to make a manual payment. This also required payments to be manually transferred by an officer to the correct company to enable individual accounts to be administered. The service was allocated 1.4FTE for Reside collection (discussed further at 5.9) with at least 1 FTE being required to service the phone line during working hours.
- 4.8. A project is now nearing completion to fully remedy this situation with all but one of the companies capable of offering the full range of payment methods, with no need for manual intervention to allocate payments correctly. The technical solution for the final company is currently being tested through the banking process and is expected to go live in April.
- 4.9. The team were initially allocated 1.4FTE to manage the rent collection process for reside tenants, which are currently 1911 tenancies. Due to the level of manual

processes, including receipt of payments by phone, this provided limited capacity for proactive recovery action. A bid for additional resources (2 FTE) was agreed in October 2023 but due to delays in the recruitment process, the first additional member of staff joined the team in March 2024. The second vacancy is in the process of being readvertised.

- 4.10 Whilst the above issues have added considerable work and complexity to the recovery process, the actions taken to date and additional staff resource committed put the service in a strong position to reduce arrears and improve the collection rate during 2024/25.

## 5. General Income

- 5.1. General income (Sundry debt) collection for 2023/24 was 4.7% higher than 2022/23 at 94.7%.
- 5.2. The Sundry team work closely with departments to help ensure that invoices are issued accurately and that the charges being raised are fully understood.
- 5.3. Arrears have reduced by 77% or £14.9m since the start of the year. The table below show the age of outstanding debts, BD Groups excluded (£5.9m).

Year of issue	Sum of Balance Outstanding	Percentage of total arrears
2010/2011	0	0%
2011/2012	£2,267	0%
2012/2013	0	0%
2013/2014	£2,013	0%
2014/2015	£2,106	0%
2015/2016	£4,882	0%
2016/2017	£28,303	1%
2017/2018	£140,988	3%
2018/2019	£258,877	6%
2019/2020	£603,350	14%
2020/2021	£352,505	8%
2021/2022	£1,522,257	35%
2022/2023	£1,418,435	33%
<b>Grand Total</b>	<b>£4,335,983</b>	

## 6. Adult social care

- 6.1. The overall collection rate for homecare and residential debts in 2023/24 was 54.3%, an increase of 12.5%. Homecare collection was 50.7% and residential 56.2%.
- 6.2. £6,925,689 has been collected which is an increase in cash collection of 30% versus last year which saw £4,841,747 collected.
- 6.3. Charges this year have increased by 9% from £11.6m in 2022/23 to £12.8m in 2023/24.

- 6.4. This improvement is as a result of the collection function being moved to the Financial Assessments Team and the process being revised including automated reminders, increased phone contact and legal progression.
- 6.5. Deferred Payments have £1.4m secured.
- 6.6. Arrears have reduced by 46% or £7.1m since the start of the year, this is a 28% increase on collection against 22/23.
- 6.7. 2024/25 will start with a balance of £15.2m in arrears for collection.

Year of issue	Arrears	Percentage of total arrears
2008/2009	£3,353	0%
2011/2012	0	0%
2012/2013	0	0%
2013/2014	0	0%
2014/2015	0	0%
2015/2016	£4,540	0%
2016/2017	0	0%
2017/2018	£118	0%
2018/2019	0	0%
2019/2020	£665,390	4%
2020/2021	£1,559,606	10%
2021/2022	£2,289,903	15%
2022/2023	£4,126,105	27%
2022/2023	£6,570,969	43%
<b>Grand Total</b>	<b>£15,219,985</b>	

## 7. Collection rates

- 7.1. The table below shows collection rates for 2023/24:

Collection area	2023/24	2022/23	Variation
Council tax current year	93.54%	93.56%	0%
Council tax arrears	£2,240,359	£1,843,645	+£396,713
Rent	100.26%	98.34%	+2.01%
Business rates	96.7%	94.5%	+0.2%
General Income	94.7%	87.8%	+4.7%
Leasehold	94.5%	87.7%	-12.4%
Commercial rent	96.3%	95.5%	+0.8%
Care	54.3%	41.7%	+12.5%
Housing Benefit Overpayments	17.5%	15.6%	+1.9%
Reside	92.74%	96.11%	-3.37%

- 7.2. The total amount charged across all revenue streams in 2023/24 increased by 6.1% or £26.9m and collection increased by £37.5m or 9.6%

2023/24	NCD	PAID	PERCENTAGE
<b>COUNCIL TAX</b>	£103,786,040	£97,083,291	93.5%
<b>NNDR</b>	£65,790,077	£63,595,765	96.7%
<b>HB OVERPAYMENTS</b>	£17,201,142	£3,008,398	17.5%
<b>SUNDRY DEBT</b>	£158,423,983	£149,996,998	94.7%
<b>CARE</b>	£12,765,692	£6,925,689	54.3%
<b>LEASEHOLD</b>	£7,419,971	£5,527,652	74.5%
<b>RENT</b>	£104,437,589	£104,714,051	100.3%
<b>TOTAL</b>	<b>£469,824,494</b>	<b>£430,851,844</b>	<b>91.7%</b>

## 8. Arrears

8.1. Arrears have reduced by 40% since the start of the year.

<b>ARREARS AND MOVEMENT IN 2023/24</b>				
	<b>YEAR START</b>	<b>YEAR END</b>	<b>REDUCTION</b>	<b>CHANGE %</b>
COUNCIL TAX	£26,362,521	£16,994,355	-£9,368,167	-36%
NNDR	£11,780,406	£5,938,335	-£5,842,071	-50%
HB OVERPAYMENTS	£19,926,437	£16,991,007	-£2,935,430	-15%
SUNDRY DEBT*	£19,189,656	£4,335,983	-£14,853,673	-77%
CARE	£16,350,523	£8,424,757	-£7,925,766	-48%
LEASEHOLD	£726,017	£1,166,302	£440,285	61%
RENT	£10,047,235	£8,621,577	-£1,425,658	-14%
<b>TOTAL</b>	<b>£104,382,795</b>	<b>£62,472,315</b>	<b>-£41,910,480</b>	<b>-40%</b>

\*BD Groups excluded (£5.9m)

## 9. Debt management

9.1. The Debt Management Policy has been reviewed and updated to add clarity to the process and is attached at **Appendix A**. The policy details the collection process and write off processes.

9.2. Updates to the policy include:

- Recovery process flow charts for all debts
- Care collection process
- Inclusion of Rents and Parking processes
- Debt management & write off process.

## 10. Bad Debt Provisions

10.1 The decrease in debt brought about by the project to write off aged debts has resulted in the provision required for bad debts decreasing by £7.4m to £56.6m, as detailed below:

	<b>Opening BDP</b>	<b>Closing BDP</b>	<b>Change</b>
Council Tax	£13,014,571	£10,750,981	-£2,263,590
Business Rates	£9,127,037	£5,685,000	-£3,442,037
Costs (Ctax & Bus Rates)	£2,060,191	£2,023,912	-£36,279
HB Overpayments	£17,491,027	£16,102,947	-£1,388,080
Sundry	£2,843,571	£2,514,891	-£328,680
Care	£13,538,411	£13,291,046	-£247,365
BDTP	£5,927,265	£6,234,423	£307,158
<b>TOTAL</b>	<b>£64,002,073</b>	<b>£56,603,200</b>	<b>-£7,398,873</b>

## 11. Financial Implications

Implications completed by: Michael Jarrett, Finance Manager

- 11.1. Compared to the same period last year, collection rates have improved across most categories of debt. However, they have not recovered to pre-pandemic levels, this is due to the impact of the Cost-of-living crisis and transition of residents from Housing Benefit to Universal Credit. To try and alleviate some of this additional pressure, adjustments have been made to the process of debt recovery allowing residents a longer period to pay, given their reduced financial circumstances.
- 11.2. Collecting all debts due is critical to funding the Council and maintaining cashflow. A Debt Steering Group has been established to monitor performance and direct the focus of the team to where targets are not being achieved. This should improve prompt collection of Council revenues.
- 11.3. The Council maintains a bad debt provision which is periodically reviewed. Although there appears to be a reduction in the bad debt provision, this mainly results from a decrease in debt following the writing off non-recoverable historic debt arrears. This then, not only reduces the outstanding arrears, but also the overall bad debt provision. Increases to the provision are met from the Council's revenue budget and reduce the funds available for other Council expenditure.
- 11.4. The arrears project has been reviewing historic debt and where these are recoverable the necessary action is being taken. Where debts are no longer recoverable, they have/will be written off. Most of these debts are more than three years old, and a 100% provision has been allowed for these debts.

## 12. Legal Implications

Legal Implications completed by: Dr. Paul Feild, Principal Standard & Governance Lawyer

- 12.1 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. The courts held at common law the Council holds a fiduciary duty to its residents to act as a trustee and to the Government to make sure money is spent wisely and to recover

debts owed to the Council. If requests for payment are not complied with, then the Council will seek to recover money owed to it by way of court action once all other options are exhausted.

- 12.2 The Accounts and Audit Regulations 2015 require the Council's statement of accounts to be prepared in accordance with proper accounting practice. The CIPFA Code of Practice on Local Authority Accounting, requires the Council's statement of accounts to include sufficient provision for bad debts to be determined by the S.151 Local Government Act 1972 Chief Finance Officer (Director of Resources).
- 12.3 Debt recovery will follow the Council's Debt Management Policy of which a revised version has been presented with this report. The decision to write off debts has been delegated to Chief Officers who must have regard to the Financial Rules and Procedures in terms of their authority to write off the said debts.

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

**List of appendices:**

- **Appendix A:** Debt Management Policy 2024