

CABINET

20 SEPTEMBER 2011

Title: Debt Management Performance and Write-Offs - 1 April to 30 June 2011 (Quarter 1)	
Report of the Cabinet Member for Finance, Revenues and Benefits	
Open report	For Information
Wards Affected: None	Key Decision: No
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Accountable Divisional Director: Sue Lees, Divisional Director of Assets and Commercial Services	
Accountable Director: Tracie Evans, Corporate Director of Finance and Resources	
Summary: This report focuses on the performance of the Council's partner, Elevate East London, in carrying out the debt management function on behalf of the Council for the first quarter of 2011/12. It also summarises the delegated decisions that have been made to write-off debt for the first quarter of 2011/12, and details the top debts that have been written off.	
Recommendation(s) The Cabinet is asked to: (i) note the contents of this report as it relates to the performance of the debt management function carried out by the Revenues and Benefits Service operated by Elevate East London (ii) note the debt write-offs for quarter 1 of 2011/12 and that a number of these debts will be publicised in accordance with the policy agreed by Minute 69 (6 November 2007).	
Reason(s) As a matter of good financial practice and to accord with the Council's Financial Rules. To assist in the Policy House priority of a well run organisation delivering its statutory duties in the most practical and cost-effective way.	

1. Background

- 1.1 The Council's Revenues, Benefits, General Income and Rents Service is operated by 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.

1.2 This report sets out the progress and performance for the first quarter of 2011/12 and covers the overall performance of each element of the service, improvements planned for the service, service progress so far, and debts that have been agreed for write off in accordance with the Council's Financial Rules.

2 Performance and Continuous Service Improvement

2.1 For each of the teams of the Revenues Service an Operational Improvement Plan has been put in place and this also includes a Continuous Service Improvement Plan (CSIP). The CSIP is an action plan that highlights the operational improvement activity being addressed during the financial year.

2.2 Set out below is the performance for the first quarter and highlights of the CSIP improvements being worked on by Elevate for each of the functions of the Revenues Service.

Table 1: Collection Rate Performance - 2011/12 (Quarter 1)

Revenue	KPI Profiled Target	Actual	Variance	Amount Collected	Yearly Amount Due
Council Tax	29.00%	28.90%	-0.1%	£14.9m	£51.8m
NNDR	32.50%	23.70%	-8.8%*	£13m	£55m
Rents	95.20%	96.69%	+1.49%	£93m projected	£96.27m projected
Leaseholder	62.68%	55.27%	-7.41%	£579,499 of £1,048,416	£2,878,608**
General Income	31 days***	18 days	+13 days	£11,179,818	£2,583,044

*Poor performance due to debts not paid by LBBB while a finance review was undertaken. This was completed in August and all debts paid. August performance predicted to be 0.5% above target

** Quarters 2 and 3 not yet invoiced and measured – performance is measure of debt invoiced at Qtr 1

*** (Measure is the average in calendar days of debt outstanding where the debt remains unpaid after 21 days and yearly amount is debt outstanding at end of Qtr 1, more debt will be invoiced during the year – more meaningful measures are being investigated).

Council Tax performance quarter 1 and service improvements

2.3 Council Tax collection rates at the end of the first quarter were 0.1% below last year's performance and the contractual target set for Elevate. The percentage

collection was 28.9%, equating to £14.9M collected of the £51.8M Council Tax due. Elevate are urgently exploring reasons why performance has not met targets as expected with the improvements made to date, which are illustrated below. Findings will be reported at the next monthly LLP Board.

- 2.4 A full review of the team's procedures, resources and levels of liaison with other essential teams has been completed and plans have been created by Elevate to ensure that actions are targeted towards increasing collection.
- 2.5 Work has been undertaken with Elevate's B&D Direct to ensure that procedures are consistent and in line with the plans to increase collection. A project has been completed which has examined the reasons for customer contact as well as the way in which queries are resolved. As a result new procedures have been drafted to extend B&D Direct's ability to resolve queries at the first point of contact.
- 2.6 A new payment arrangement procedure has been introduced with specific criteria that must be met to ensure payments are made by direct debit. In addition customers will not be able to make these arrangements unless employment details are given so that attachments of earnings can be set up where the arrangement is broken subsequently. This procedure has increased direct debit take up by 1% since the beginning of the year.
- 2.7 Summons surgeries are now held on a monthly basis at the Barking Learning Centre (BLC) and Dagenham Library and customers are seen by council tax officers so that issues are resolved before the hearings.
- 2.8 Customers are now also seen at the BLC on court days to ensure that their queries are resolved, which is a change from the previous practice of trying to make payment arrangements without computer access and sending customers away from the court without having dealt with their issue. It should be noted that these arrangements are under review pending to the closure of Barking¹ Magistrate's Court in September 2011.
- 2.9 Additional plans include improved monitoring of bailiff performance, improved selection of cases for enforcement action, and targeted bankruptcy and committal action. In addition liaison with B&D Direct is being improved by regular operational meetings and additional refresher training for customer services officers.

NNDR performance quarter 1 and service improvements

- 2.10 NNDR collection for the first quarter is 23.7%, equating to £13m of the £55m debt collected. This is 8.8% below last year and the contractual target set for Elevate. However this is due to non-payment of debt owed by the Council while the Council carries out a review of its NNDR liability and finance coding structure. This has been completed at the beginning of August and the outstanding debt paid. This is predicted to bring NNDR collection to 0.5% above target in August.
- 2.11 A review of the current procedures and policies has been undertaken and resources increased to deal with staff shortages due to maternity. Telephone performance has increased significantly and now call answering is averaging 90% of those offered.

¹ Following the closure LBBD cases will be heard at Romford Magistrate's Court.

- 2.12 Plans are in place to improve case selection for enforcement action as well as automating key processes to improve capacity within the team.

Rents collection performance and service improvements

- 2.13 At the end of Quarter 1, projected rent collection for the whole year stands at 96.69%, which is above the profiled KPI target of 95.2% with June seeing £93m of the £96.2m quarter 1 rent due collected.
- 2.14 The Council implemented a new IT system for rent collection in November 2009. Elevate has been working to stabilise the IT system and the functionality has been improved and is more stable now. The improved stability of the system has allowed the Rents Team to train staff to be proactive by running system reports that identify arrears cases that have not been included for automatic review by the system. Therefore, the Team have made great strides in ensuring that those in arrears are contacted in accordance with the agreed procedures.

Rents Quarter 1 and service improvements

- 2.15 One Stop Shop staff at Barking Learning Centre and Dagenham Library have received extensive training on Rents since April and the number of tenants attending for advice has risen to over 135 per week on average across both sites.
- 2.16 Elevate encourage payment by Direct Debit (DD). Tenants paying by DD at the end of June increased to 4,482 an increase of 56 from the end of May; a progression which if continued will ensure that we exceed our annual target of increasing DD payers by 5%.
- 2.17 The team continue to look at options to ensure smarter working; foremost being more joined up working with Housing to ensure HB take up is maximised at tenancy sign up and abandoned tenancies are identified. In our day to day operations we have moved to serving Notices, predominantly by post, so that staff have time to take action on more cases that are highlighted for arrears action.
- 2.18 Since Elevate took on the management of rent collection it has removed a bottleneck and subsequent backlog of arrears cases needing to be referred to court. Elevate are continuing to maintain a higher level of throughput as well as management of the increased workload due to the high volume of arrears cases subject to a Possession Order for breach of payment agreements.
- 2.19 There is no backlog of cases waiting to be referred to the County Court. However such is the volume of cases under Possession Orders, over 300, that the workload increases as tenants in breach of Orders apply for hearings which the Court team must attend. This is demanding of officer time and affects the throughput of cases being referred for new Possession hearings. It is difficult to predict when the volume of cases under Court Orders will reduce to more manageable volumes. Three main factors have been identified as:
- the number of tenants paying off very high levels of debt at low instalment values,

- the relatively low numbers the Court agree to evict. There were 11 evictions in May and 14 in June,
- the number of new arrears cases being referred to court - on average some 20 cases per week are being referred to Court for Possession Orders.

2.20 The computer system “prompts for action” are being reviewed to ensure that they are working at the optimum level for the arrears recovery plan. Furthermore, arrears letters are undergoing review and efforts to achieve easier contact with tenants in arrears by obtaining mobile numbers are ongoing.

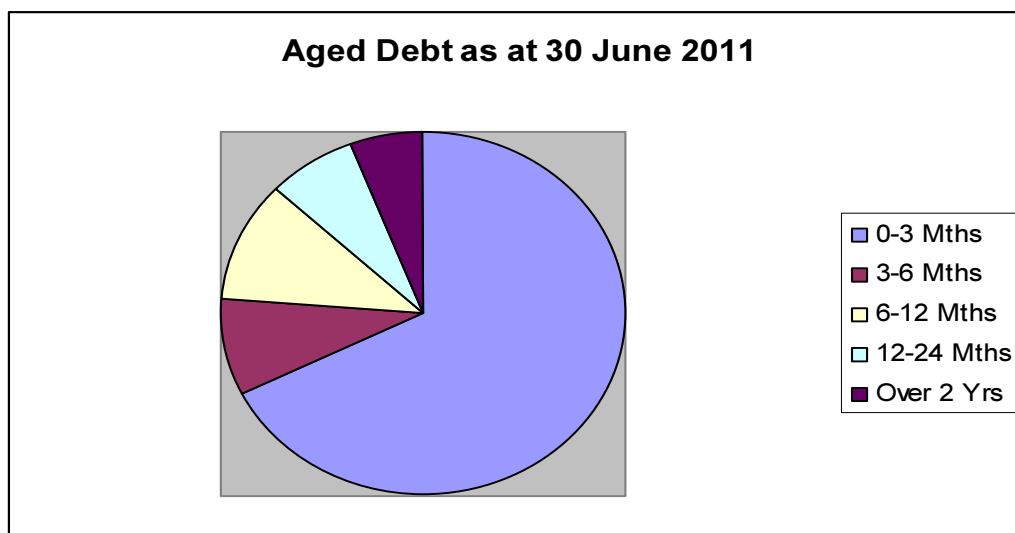
General Income

2.21 General Income is used to describe the ancillary sources of income available to the Council, and which support the cost of local service provision. Examples of income streams from which the Council derives income include; recharges for social care; rechargeable works for housing; nursery fees, trade refuse, truancy penalty notices, hire of halls and football pitches. A single computer system is used for the billing of these debts and collection performance across all these debts is reported together.

2.22 The collection of Leasehold Service Charges and Penalty Charge Notices are monitored through separate computer systems and the performance of these is reported separately.

2.23 The key measure used for the performance of the collection of General Income is the average age in calendar days of debts outstanding where the debt remains unpaid after 21 days. As at the end of June 2011 this stood at 18 days compared to 31 days at the same point last year.

2.24 The current aged profile of the debt² is as follows:



2.25 For the first quarter £11,179,818 was collected with £5,452,239 having been collected in June. At the end of June the debt stood at £2,583,044.

² Aged debt reflects invoices that remain unpaid after the 21 days. 21 days being the Council's payment terms.

- 2.26 Elevate make sure that the debt is pursued while a reasonable prospect remains of collecting the debt. For example the above chart shows a tranche of debt that is over two years old. With these (around 300 cases) most commonly Elevate are in discussion with the issuing department to decide on the next steps or the debt has legal action pending. All debts are monitored on a regular basis to ensure that appropriate action is being taken.

General Income: Leaseholders

- 2.27 Performance for the collection of monies due for the first quarter was 55% with £579,499 collected so far this year. It is to be noted that leasehold collection has been greatly hampered by a lack of functionality of the new leasehold module of the computer system implemented by the Council in April 2010. It was only possible to issue letters in relation to last year's arrears at the beginning of July 2011, and for reminders regarding the current year to be issued in mid-July. This basic functionality was previously not available. However, while the system is now able to deal with current year's debt it is the case that the system lacks the functionality to deal with arrears cases. Elevate are reviewing the issue in order to establish the most efficient and cost effective solution to allow for effective arrears collection in the future.

General Income: Leaseholders - improvements

- 2.28 The IT issues highlighted above have meant that the efforts of Elevate's Revenues Service and its IT teams has been focused on working to improve the functionality of the IT system.

Penalty Charge Notices

- 2.29 The Council refer unpaid Penalty Charge Notices (PCNs) for parking, bus lane and box junction infringements to Elevate for enforcement. The vast majority of these relate to parking infringements.
- 2.30 In May 2010 the Council introduced a new computer system for dealing with PCNs. However, it is the case that because of teething problems with this system the Council has been unable to refer any PCNs issued since May 2010 to Elevate. The issue was resolved in May 2011 and it will be possible for the Council to refer appropriate PCNs to Elevate from the end of the summer 2011.
- 2.31 While PCNs from May 2010 have not been referred, Elevate have been asked to focus on outstanding PCNs from the previous computer system relating to the period before May 2010. To this end Elevate is working closely with the Council to maximise recovery and clear remaining cases so that the old computer system can be shut down in the autumn of 2011.

3 Write-offs

- 3.1 In May 2010 the Service received an Internal Audit report concerning write-offs. The outcome of this audit was that the write-off of debt was given a "Substantial Assurance" rating, meaning that Audit are satisfied with the processes in place for dealing with the write-off of debt. These processes remain in place within Elevate.

- 3.2 Where a debt is written off it is the case that measures have been taken to collect all debts and levies due; it is the case that some debts will remain unpaid, even after concerted efforts have been made to collect them.
- 3.3 Debts are categorised and recommendations made to write-off amounts deemed to be irrecoverable. The write-off of debt allows the service to focus on debts that are more likely to be recovered. At the same time the Council makes provision within its accounts for debts that are likely to be written-off.
- 3.4 The write-offs presented in this report fall into two broad categories. Firstly, debts Elevate is unable to collect on the Council's behalf because for example the customer is deceased and there is no estate, the customer has gone away and cannot be traced, or the age of the debt precludes recovery. Secondly, there are cases where it is uneconomic to collect.
- 3.5 Approximately 75% of write-offs relate to debts deemed uneconomic to collect with the remainder being where Elevate is unable to collect. Elevate is currently working on data collection relating to write-offs so that future reports will be able to provide more detail on the reasons for write-offs.
- 3.6 The value of debts written off for the first quarter of 2011/12, i.e. April to June 2011 total: £120,804.31. (*Appendix A*)
- 3.7 In 2010/11 almost £2.4M was written off. However it is very important that the amounts written off are seen in relation to the overall value of debt that Elevate seek to collect for the Council on an annual basis, which is in excess of £300M each year, meaning that less than 1% of debt is written off. (*Appendix B*)
- 3.8 There have been no write-offs for Council Tax and NNDR in the first quarter of 2011/12. While appropriate cases have been identified none have been put forward for approval by the Council. This is because the costs relating to collection, (e.g. summons costs) must be accounted for separately from Council Tax and NNDR and there is no mechanism in place for this. The Council is working to resolve this so that debt write-off for Council Tax and NNDR can resume in Quarter 2.

4. Publication of individual details of debts written off (*Appendix C*)

- 4.1 A number of Authorities publicise the details (names, addresses etc.), of residents who have had debts written off. In the majority of cases, these debts have been written off where the debtor has absconded.
- 4.2 The Council agreed in November 2007 (Minute 69, 6 November 2007) that a list showing the details of debtors, who have had debts written off, would be attached to this report. A list has been attached at *Appendix C*. The list has been limited to the top ten debts only.
- 4.3 As was previously outlined within the 6th November 2007 Cabinet report, It was recommended that the following types of debt write offs are excluded from this publicised list:
- a) Debts that have been written off following a corporate complaint being upheld

- b) Debts that have been written off due to the debtor falling within one of the vulnerable groups (e.g. elderly, disabled, infirm etc.)
- c) Where the original debt was raised in error
- d) Where debts have been written off, but no legal action has been taken to prove that the debt was legally and properly due
- e) Where the debt has been written off following bankruptcy or insolvency action (the majority of these cases will be individually publicised)

4.4 The exclusion of the category of debts listed above will eliminate the possibility of any unnecessary and potentially costly legal challenges from debtors, who take issue with their details being publicised. It is intended that where the details or whereabouts of debtors become known following publication, those debtors will be pursued as far as is possible, to secure full payment of the debt.

4.5 The list provided at appendix C does not include debts or debtors that fall within categories a-e above, so the list as it stands can be publicised.

5. Financial Implications

Implications verified by: Jonathan Bunt, Divisional Director of Finance

5.1 All debts written off will have been provided for within the Council's Bad Debt Provision and as such there should be no specific financial implications. However, there is the possibility that unforeseen and unplanned additional write offs occur, which lead to the value of debts written off in any year, exceeding the agreed bad debt provision.

5.2 Where this is likely to happen, this quarterly report will act as an early warning system and will enable additional control measures to be agreed and taken, to either bring the situation back under control, or to make appropriate adjustments to the bad debt provision.

5.3 Improvements in the pursuit and collection of debt enables the Council to make a lower provision and improves the level of balances and reserves though debts are only pursued to the point that it is economically sensible to do so.

5.4 Within the Elevate contract is provision for a sharing of any monies collected over and above the levels specified in the contract. Those levels reflect consistent performance by the Council for a number of years and are the level budgeted therefore, any improvement, represents a financial gain for Barking & Dagenham.

6. Legal Implications

Implications verified by: Eldred Taylor-Camara, Group Manager, Legal Services

6.1 The pursuit of debts owe to the Council is a fiduciary duty. The Council seeks to recover money owed to it by the courts once all options are exhausted. Not all debt will be recovered and a pragmatic approach has to be taken with debts as being on occasions, uneconomical to recover in terms of the cost of process and the means of the debtor to pay. As observed in the body of this report, in the case of rent arrears, a possession and subsequent eviction orders are a discretionary remedy and the courts will on many occasions suspend the possession order on condition

the tenant makes a contribution to their arrears. The Councils decision to utilise Introductory Tenancies will over time begin to have an impact as only those tenants with a satisfactory rent payment history can expect to be offered a secure tenancy.

- 6.2 The decision to write off debts has been delegated to Chief Officers who must have regard to the Financial Rules.

7. Other Implications

7.1 Risk Management

- 7.2 No specific implications save that of this report acting as an early warning system to any problems in the area of write off's.

Background Papers Used in the Preparation of the Report:

- Operational Improvement Plans for Revenues service areas.

List of appendices:

- Appendix A – Debt Write Off Table for Quarter 1 2011/12
- Appendix B – Debt Write Off Table for 2010/11
- Appendix C – Top Debts Written Off