

## CABINET

18 September 2012

<b>Title:</b> Debt Management Performance and Write-Offs 2012/13 (Quarter 1)	
<b>Report of the Cabinet Member for Finance</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 Director:</b> Tracie Evans, Corporate Director of Finance and Resources	
<b>Summary:</b>  This report sets out the performance of the Council's partner, Elevate East London, in carrying out the debt management function on behalf of the Council and covers the first quarter of the year 2012/13. It also includes details of debt written off in accordance with the write off policy approved by Cabinet on 18 October 2011.	
<b>Recommendation(s)</b>  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, including the performance of bailiffs; and  (ii) note the debt write-offs for the fourth quarter 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) (the debts to be published are those with the highest value for which publication is not prevented by the criteria set out in paragraph 2.53).	
<b>Reason</b> Assisting in the Council's Policy House aim of ensuring a well run organisation delivering its statutory duties in the most practical and cost-effective way. It will ensure good financial practice and adherence to the Council's Financial Rules to report on debt management performance and total debt write-off each quarter.	

### 1. Introduction and 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 performance for the first quarter of 2012-13 and covers the overall progress of each element of the service for the year so far. In addition it summarises the debts that have been agreed for write off in accordance with the Council's Financial Rules. Write offs in the first quarter have been actioned in accordance with the Council's debt management policy agreed on 18 October 2011.

## 2. Proposal and Issues

- 2.1 Set out below is the performance for Quarter 1 of 2012-13 and highlights of the improvements made by Elevate for each of the functions of the Revenues Service during the year.

Table 1: Collection Rate Performance - 2012/13 Quarter 1

Type of Debt	2012/13 Target	Profiled target for Quarter 1	Performance Quarter 1	Difference	Amount Collected Qtr 1 £m
<b>Council Tax</b>	94.5%	29.0%	29.4%	+0.4	£15.282
<b>NNDR</b>	97.1%	24.4%	32.8% <sup>1</sup>	+8.4%	£18.984
<b>Rents</b>	96.80%	96.80%	97.18%	+0.38%	£97.056
<b>Leaseholder</b>	86.26%	16.05%	22.83%	+6.78%	£0.850

### Council Tax performance and service improvements

- 2.2 Council Tax collection at the end of the first quarter finished 0.4% above the target for first quarter. The percentage collection was 29.4%, equating to £15.282m collected of the £52.011m Council Tax due. This shows the continuing trend of improvement from 2011-12 when Council Tax collection improved by 1.2% compared to an average increase of 0.4% amongst LBBB's family of councils<sup>[1]</sup> and was the highest collection rate achieved in the last 10 years despite the continuing tough times being experienced by residents.
- 2.3 A breakdown of the outstanding council tax debt as at 31 March 2012 for Council Tax, year by year is set out below:

Year	Arrears (£)
1999/00	34,083
2000/01	39,109
2001/02	66,615
2002/03	141,747
2003/04	259,781

<sup>1</sup> This figure is significantly above the profile because of the way LBBB pay their NNDR in advance.

[1] Greenwich, Hackney, Haringey, Islington, Lambeth, Lewisham, Newham, Tower Hamlets, Southwark, Waltham Forest.

2004/05	450,851
2005/06	709,475
2006/07	1,167,633
2007/08	1,701,940
2008/09	2,003,043
2009/10	2,304,920
2010/11	2,652,864
2011/12	2,853,331

2.4 The main improvements implemented by Elevate so far this year are:

- continuing to improve the number of council tax payers paying by direct debit with an increase of 3.97% at the end of quarter 1.
- The new payment arrangement policy introduced last year has seen an increase in arrears collection for Q1
- All council tax procedures have been reviewed and re-launched in quarter 1 along with standardisation of all documentation used.
- Attachments of earnings have increased since the beginning of the year with 1,130 attachments of earnings now in place compared to 897 at the end of quarter 4 2011/12.
- A temporary inspector was engaged in November 2011 tasked with visiting empty properties. Since April 2012 a total of 218 properties have been visited with 209 cases resolved.

2.5 Paragraph 2.3 above sets out the volume of council tax outstanding year by year from 1999. The decision to write-off is dependent on the steps already taken and potentially exhausted to recover the debt.

2.6 During the first quarter additional write offs were approved for write-off but are not showing on appendix A as they were not removed before the end of the quarter, the amount will be reported in the next report. The delay was because of the work required to ensure the system reconciles with the write-offs made.

#### NNDR performance quarter 1 and service improvements

2.7 NNDR collection for the first quarter was year was 32.8%, equating to £18.984m of the £57.949m debt due for the whole year. This is 8.4% above the target. The significant collection above the target is explained by the fact that LBBD have paid their NNDR in advance.

2.8 The main improvements in NDDR are:

- a review of all procedures to improve efficiency and launch of a new procedure manual.
- All enforcement processes have been reviewed to improve the process and increase collection rates.

## Rents collection performance and service improvements

- 2.9 At the end of quarter one rent collection achieved was 97.18%, which is 0.38% above the target performance of 96.80%.

For 2012-13 Elevate have, in agreement with the Council, adopted the House Mark measure for rent collection which is different from the former Rents performance indicator (PI), known as "BV 66a" which was the nationwide Rents PI for all local authorities. All rents reports are drawn from the Capita IT system which was introduced by LBBD. When the requirement for the new report was communicated to Elevate Capita were brought on site to write the report to meet the requirements that House Mark specify.

The new PI measures collection performance in respect of current year and for arrears brought forward from the previous financial year, but the definition is different in a number of aspects to that of BV66a, so this year's collection cannot be directly compared with 2011-12.

At the end of June the collection for the financial year is projected to reach £97.056m of the £99.877m projected as the collectable amount for the whole year.

- 2.10 Elevate have stabilised the Capita IT system. System reports on cases that need arrears action have been working reliably which has meant that tenants have received arrears letters on time and at an earlier stage than last year.

We are now in a position to take action on debt at levels when there is still a realistic prospect of tenants making arrangements to clear the debt in the current financial year.

We seek to persuade tenants to make arrears clearance their priority so that we can avoid taking them to Court. Before resorting to Court action we do all we can to ensure that the tenant has received all housing benefit they are entitled to and that they are directed to support if needed.

The threat of Court action is often effective in producing large payments of arrears and Court orders for eviction regularly produce full clearance of the debt. We have introduced on line applications for Courts Possession hearings; this will reduce Court costs and save officer time.

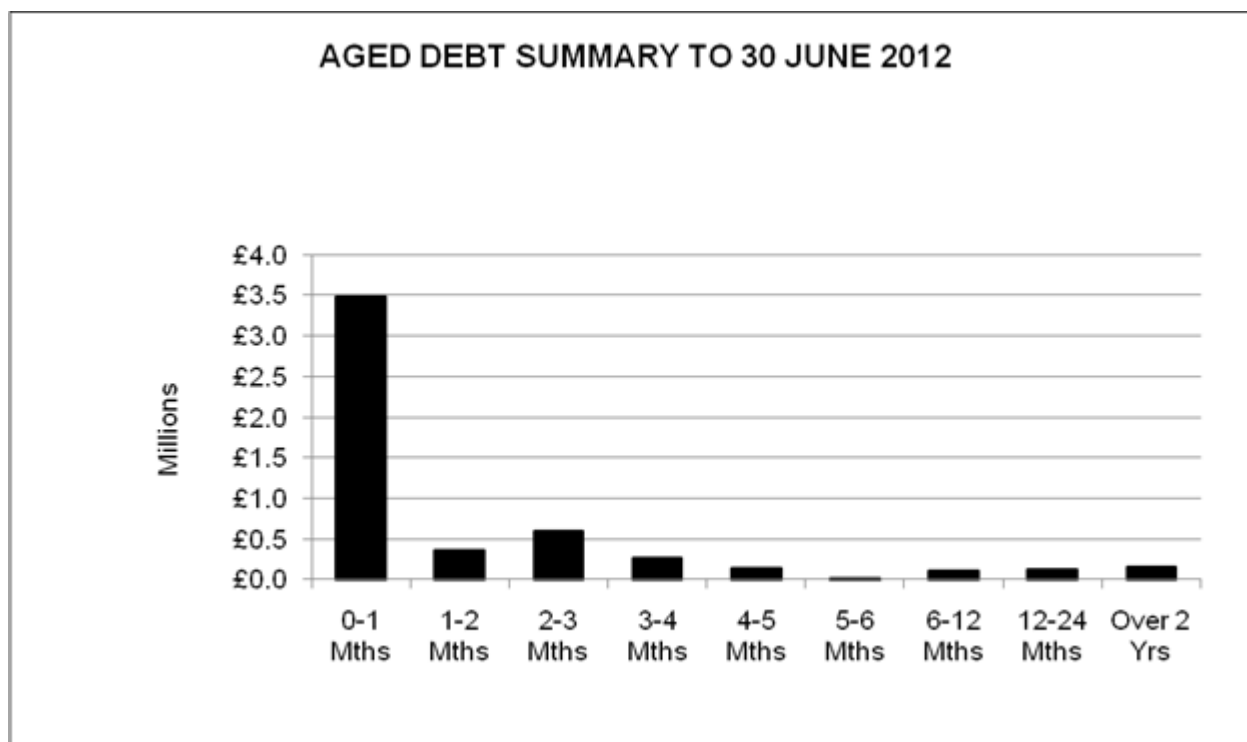
- 2.11 One Stop Shop staff at Barking Learning Centre and Dagenham Library see around 100 tenants weekly across both sites. Most tenants with rents enquiries (around 1000 per week) phone the Rents team directly. Around 90% of calls are answered and this level of performance has been maintained for the last 9 months. This represents a step change from the performance levels which obtained between September 2010 and March 2011 when less than 50% of calls were answered.
- 2.12 Elevate encourage payment by Direct Debit (DD). The Council have launched a quarterly prize draw to promote DD that offers one prize of £250 and two of £100. To qualify tenants must pay by DD and must not be in arrears.
- 2.13 The team continue to look at options to ensure smarter working; foremost being more joined up working with the Housing management service. The review of the

end to end process has now evolved into revising procedures with Housing management for sign up to tenancies and settling in visits to ensure that we prevent rent arrears from arising wherever possible.

- 2.14 To ensure HB take up is maximised at tenancy sign up, Dagenham Library have recently joined the Barking Learning Centre in dealing with Housing Benefit assessments when customers sign up for new tenancies. A housing benefit officer will be attached to the Rents Team from early July to ensure that we maximise benefit payable and to broaden the knowledge of the team generally on claim criteria.
- 2.15 On line access to rent account balances and to order a Rent payment card became available from July 2012. SMS texting was introduced in Quarter 3 of 2011-12 so that lower level arrears cases receive a text message in addition to a standard arrears letter and tenants can text to find out their rent account balance.

### General Income

- 2.16 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; charges for social care; rechargeable works for housing; nursery fees, trade refuse, truancy penalty notices, hire of halls and football pitches. Oracle is used for the billing of these debts and collection performance across all these debts is reported together.
- 2.17 The current aged profile of the debt<sup>[1]</sup> is as follows:



<sup>[1]</sup> Aged debt reflects invoices that remain unpaid after the 21 days. 21 days being the Council's payment terms. It excludes charges for home and residential care and penalty charge notices that are reported separately.

- 2.18 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. We make arrangements to pay by instalments, and make regular phone calls to try to receive payment to reduce any court action, which is used as a last resort.
- 2.19 The collection of Leasehold Service Charges and Penalty Charge Notices are monitored through separate computer systems and the performance of these is reported separately.

#### General Income: Leaseholders

- 2.20 For the in-year charges for 2012-13<sup>21</sup> performance for the collection at the end of June stood at a total of payments received of £725,538 from a debit of £3,177,143 which gives a collection rate of 22.83%, and for previous year's debt Elevate have collected £108,758 of £496,630. The overall collection rate for all years, i.e. in-year debt and arrears at 30<sup>th</sup> June 2012 stood 6.78% above the target at 22.83%.

#### General Income: Leaseholders - improvements

- 2.21 The main area of improvement in respect of Leasehold collection in arrears is the additional resource that Elevate have added to the Court Team, this has assisted greatly in being able to do much more detailed and pro-active recovery in a quicker time scale. More detailed reminder letters have been manually produced and mediation work has been carried out.

#### Penalty Charge Notices

- 2.22 The Council refer unpaid Penalty Charge Notices (PCNs) for parking, bus lane and box junction infringements to Elevate for enforcement once a warrant has been obtained from the Traffic Enforcement Court. The vast majority of these relate to parking infringements. Elevate enforce these warrants through bailiffs and monitor their performance. Overall collection rates on PCNs will be reported by Environmental and Enforcement Services (Parking Services).
- 2.23 The number of warrants related to PCNs from December to the end of June sent to bailiffs is 14,455 totalling £2,288,222. The collection rate overall is currently at 12.7%. The actual collection performance on a batch of warrants can only be measured when a warrant expires after 12 months.
- 2.24 Elevate is working closely with its bailiffs at ways that the collection rate can be improved. Elevate now send warrants every fortnight and send additional warrants to the bailiff with the best performance.

#### Fairer Contribution Charging

- 2.25 The Council's new Fairer Contribution Policy commenced from October 2011.

2.26 The agreed measure for performance reporting was the percentage collected on debt over 120 days old.

2.27 Detailed below is the performance as at the end of July 2012.

#### **Residential care**

<b>Invoices</b>	<b>Debit Raised</b>	<b>Total Collected</b>	<b>Collection rate</b>	<b>Target</b>	<b>Difference</b>	<b>Uncollected</b>
120+	£ 1,714,894	£ 1,396,906	81.46%	90%	8.54%	£ 317,988.71

#### **Homecare**

<b>Invoices</b>	<b>Debit Raised</b>	<b>Total Collected</b>	<b>Collection rate</b>	<b>Target</b>	<b>Difference</b>	<b>Uncollected</b>
120+	£ 327,729	£ 287,188	87.63%	90%	2.37%	£ 40,540.43

2.28 Direct Debits are now in place with the first payments to be taken in August.

#### Bailiff Performance

2.29 Currently Elevate use three bailiff companies, Newlyn, Equita and JBW. Bailiffs are used to collect for the following debts:

- Council Tax
- National Non Domestic Rates
- Benefit Overpayments
- Sundry Debts
- Commercial Rents
- Benefit overpayments.
- Car Parking

2.30 For Council Tax bailiff firms Newlyn and Equita are used to enforce non payment and Newlyn are used for the non payment of NNDR. A bailiff cannot be instructed to carry out this work until the Council has obtained a liability order at court. The bailiff will visit the property with the intention of collecting the debt or removing goods to the value of the debt.

2.31 Day to day working arrangements are in place so that the Council Tax team have access to the bailiff's computer system and update individual cases in real time. Changes include amendments to debts, the recall of cases where appropriate and the making and updating notes on the system. Bailiffs will not remove goods without direct authorisation from the Council Tax manager and removal is extremely rare as the debtor's goods are highly unlikely to cover the unpaid debt. Bailiffs have direct access to council tax staff to check information and where swift action is required the council tax team can contact the bailiff companies by phone. The same arrangements exist for Business Rates.

2.32 Throughout the course of the year regular meetings are held with the bailiff companies to discuss performance and resource. Bailiffs are always challenged to improve their performance and they are provided with information on how the other bailiffs are performing. Where necessary Elevate will reduce the amount of work going to bailiff where performance is deemed to be too low. Bailiffs only collect their fees when they successfully recover debt for the Council.

- 2.33 Bailiff companies have by request ensured that where new cases are sent they increase the number of bailiffs working in the area to ensure that there is a minimal delay between the cases referral and first contact.
- 2.34 Below a certain level sundry debt cases are deemed to have too low a balance to make court action economically viable. Such debts are referred to the bailiff for collection who seek to recover the debt using letters and phone calls to make contact in order to collect the debt. Where internal methods of collection have failed, benefit overpayments are referred to the bailiff for collection. They will write to and phone the debtor and where this proves unsuccessful they will visit the property with the intention of collecting the debt.
- 2.35 In most cases once a debt has been referred to the bailiff and the bailiff has been unable to collect the debt and where other available avenues are not possible the only route left is to write the debt off. Details of the write offs in quarter four of 2011/12 are in paragraphs 2.48 to 2.50 and in appendices A, B and C.
- 2.36 Bailiff action is a key tool in Elevate's work to recover overdue debts but is only one area of collection work.
- 2.37 Detail of bailiff performance by type of debt for 2011/12 by debt is set out in the table below. Referring debts to a bailiff for collection is a last resort. Bailiff performance below is for the 1<sup>st</sup> quarter and is for the debt referred in that time. The collection performance will improve during the year.

#### Council Tax

Quarter 1	Value of cases less returns	Total remitted	Collection rate %
April - June	969,563.53	29,842.93	3.07%

#### NNDR

Year	Value of cases less returns	Total remitted	Collection rate %
2012-13	£107,802	£53,824	49.93%

#### General Income

	Value of cases	Total remitted	Collection Rate (%)
2012-13	26,430.61	4,249.80	16.1

#### Commercial Rent

Bailiff Work (commercial rent)	Number referred to bailiff April to June	Value Referred to bailiff April to June	Amount Collected by bailiffs April to June	% Collected by bailiffs April to June
2012-13	5	7,907.63	5,589.03	70.68% <sup>2</sup>

<sup>2</sup> Bailiff performance is higher for this line of debt as failure to pay will lead to a loss of tenancy by the business.



## Road Traffic Debt

Warrants issued from	Number of batches	Value of cases less returns	Total remitted	Collection rate %
7.12.2011	11	£2,288,222	£289,677	12.7%

### **Bailiff Performance Overview**

- 2.38 The relatively low percentage collected by bailiffs as shown above needs to be seen in context. Elevate's revenues teams will attempt to collect their respective debts by means other than bailiffs where possible. However, where these methods have been exhausted bailiffs will be utilised.
- 2.39 In relation to council tax and business rates this can result in a large number of cases being sent at the same time to the bailiff and so can make performance in terms of cash collected as a percentage low. Although the teams will have attempted to cleanse the data related to the debts sent, in some cases there will be information about the property or debt that has not been supplied by the resident or landlord. In such cases the visit from the bailiff can often generate not only payment to the bailiff but direct payment to the council as well as hastening the supply of information that may change the account and/or details of a new occupant or allow attachment to earnings or benefits to be put in place.
- 2.40 Although the bailiffs intention is always to collect unpaid debts, their actions also act as a deterrent and often prompt the supply of information that has a direct impact on whether they should continue to pursue the debt. Furthermore, bailiffs will often make payment arrangements over a number of months and due to the number of cases issued will take a number of weeks to visit all properties. It is expected that the bailiffs will collect approximately 20% of debts that are referred to them.

### Write off process

- 2.41 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.
- 2.42 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.
- 2.43 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.
- 2.44 Of the 1044 debts written off the three main reasons were that for 73.18% the debtor had absconded and could not be traced, for 12.74% it was deemed uneconomical to pursue the debt and for 2.30% the debtor was insolvent.

## Debt Write-off: Quarter 4 2011/12

- 2.45 The value of debts written off for the first quarter of 2012-13, i.e. April to June 2012 total: £464,486 (see Appendix A).
- 2.46 In 2011/12 almost £2.4m was written off (Appendix B).

## Publication of individual details of debts written off (Appendix C)

- 2.47 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.
- 2.48 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.
- 2.49 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).
- 2.50 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.
- 2.51 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.

## **3. Options Appraisal**

- 3.1 This is not relevant for an information report.

## **4. Consultation**

- 4.1 This is not relevant for this information report.

## **5. Financial Implications**

- 5.1 As part of the closure of the Council's accounts each year, a review of outstanding debts is made and an estimate of bad and doubtful debts is provided for. All write

offs in year are made against that provision. The level of bad debts proposed and agreed for write off is monitored quarterly against the provision made at year end.

- 5.2 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.

## **6. Legal Implications**

- 6.1 The pursuit of debts owed 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** - 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:**

- Continuous Service Improvement Plans (CSIPs) for Revenues Service areas.

### **List of appendices**

- Appendix A – Debt Write Off Table for Quarter 1 2012-13
- Appendix B – Debts written off in 2011-12
- Appendix C – Top Debts Written Off