

Cabinet

16 February 2015

Title: Debt Management Performance and Write-Offs 2014/15 (Quarter 3)	
Report of the Cabinet Member for Finance	
Open Report	For Information
Wards Affected: None	Key Decision: No
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Accountable Director: Jonathan Bunt, Chief Finance Officer	
Summary <p>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 third quarter of the year 2014/15. It also includes details of debt written off in accordance with the write off policy approved by Cabinet on 18 October 2011.</p>	
Recommendation(s) <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(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 enforcement agents; and(ii) Note the debt write-offs for the third quarter of 2014/15 and that a number of these debts will be published in accordance with the policy agreed by Cabinet.	
Reason <p>Assisting in the Council's Policy 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.</p>	

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. Debts not collected by Elevate are not included in this report such as parking and road traffic debt prior to warrants being granted, hostel and private sector leasing debt.
- 1.2 This report sets out the performance for the third quarter of the 2014/15 municipal and financial year and covers the overall progress of each element of the service since April 2014. In addition it summarises the 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 18 October 2011.

2. Performance and Issues

- 2.1 Set out in table 1 below is the performance for quarter three of 2014/15 achieved for the main areas of debt managed by Elevate.

Table 1: Collection Rate Performance – 2014-15 Quarter 3

Type of Debt	Annual Target	Target for Quarter 3	Performance	Variance	Actual collected £m
Council Tax	94.0%	81.3%	81.4%	+0.1%	47.196
NNDR	98.1%	81.7%	81.3%	-0.4%	49.028
Rent	97.20%	96.50%	96.51%	+0.01%	72.899
Leaseholders	97.50%	73.95%	76.76%	+2.81%	2.836
General Income	95.0%	80.00%	89.63%	+9.63%	62.277

Council Tax collection performance

- 2.2 Council Tax collection at the end of the third quarter was 0.1% above the target. Collection of Council Tax, from those in receipt of Council Tax Support (CTS) and with a sum to pay, so far this year stands at 69.3%. The Council has adopted the same CTS Scheme for 2014/15 as it administered in 2013/14 meaning that the calculation for any working age claimant is based upon 85% of the relevant Council Tax liability. The Council also adopted the following discretionary areas within the CTS Scheme:
- i. The ability to backdate working age claims to a maximum of three months.
 - ii. To disregard war widows and war disablement pension income.
 - iii. To adopt the extended payment scheme and align it with the main Housing Benefit scheme

Council Tax Arrears

- 2.3 By the end of the third quarter of 2014/15 £1,292,133 had been collected for previous years' arrears. The target is to collect £1.5m of arrears by 31 March 2015.
- 2.4 The collection of Council Tax arrears outstanding at the end of each financial year continues over subsequent years. The table below shows the percentage of collection since 2009/10. The charge year figure below is the in-year collection rate achieved by 31 March of each year.

Table 2: Council Tax Arrears Collection

As at 31 March 2014					
Council tax collection (percentage)					
Year	Charge year	Year 1	Year 2	Year 3	Year 4
2009/10	92.9	95.0	95.7	96.1	96.4
2010/11	92.9	95.0	95.6	96.0	
2011/12	94.1	95.7	96.3		
2012/13	94.6	96.2			
2013/14	94.1				

- 2.5 There has been an increase of 3.50% in collection between 2009/10 and 2013/14. This compares favourably to other similar London authorities. For example collection in Lambeth increased by only 1% during the same period and in Greenwich by 4.2%.

Changes and improvements

- 2.6 Enforcement action has been continued against those with arrears from 2013/14 and earlier years. Where appropriate, attachments to earnings or benefit are applied to a debtor's account. These are identified via a segmentation process which identifies those debtors receiving benefit or where we hold employers details prior to referral to enforcement agent action. This minimises the cases that are referred to the enforcement agent.
- 2.7 The payment arrangement procedure ensures that those requiring more time to pay are managed appropriately. Those that fail to adhere to the terms of the arrangement are quickly identified and recovery action is continued.

Business Rates (NNDR) collection performance

- 2.8 The NNDR collection rate at the end of the third quarter was 81.3%, which was 0.4% below the profile target. The annual target for 2014/15 is 98.1% compared to 97.57% in 2013/14. This increase in target reflects both the peer group performance and the additional investment in resources the Council has made in the NNDR team within Elevate.
- 2.9 The financial climate continues to have a detrimental effect upon businesses within the Borough making collection of Business Rates increasingly challenging.

- 2.10 Ratepayers are contacted as soon as they fall behind with payments in order to try and stop them slipping further into arrears and therefore avoid recovery action and additional costs.
- 2.11 Where recovery is required, debts are now being placed with two enforcement agents compared to only one in 2013/14. A third enforcement agent will also be used to try and effect recovery should the first placement of debts be unsuccessful.
- 2.12 Rates avoidance activity by certain companies is affecting the collection rate. The perception is that companies are exploiting loopholes in current legislation and in 2014/15, £420,000 of debt has already been identified as being uncollectable. These companies are claiming that empty properties that they own are being let for short periods of time and then vacated again, allowing them to claim empty exemptions. The government has recently conducted a survey of local authorities regarding this matter which LBBB has responded to and it is hoped that legislation will be amended to close this loophole. In the mean time Elevate is visiting empty properties on a regular basis so that evidence of avoidance can be obtained and the correct company be held liable. Elevate are also consulting specialised Business Rates solicitors to ascertain the feasibility of taking further legal action.
- 2.13 £220,000 of 2014/15 debt is also uncollectable due to companies being dissolved or going into liquidation. Between these and the rates avoidance cases over 1% of the current years debt is now identified as uncollectable.

Rent collection performance

- 2.14 At the end of the third quarter collection reached 96.51% exceeding the profile target of 96.50.
- 2.15 During the third quarter of 2014/15 various actions have been taken to improve performance in rent collection:
- i. The recovery processes have been improved to ensure that avoidable arrears are minimised with the procedures agreed between the Council and Elevate having been revised to prevent further arrears.
 - ii. Work has continued ensuring that new staff in the contact centre have been trained on rents so that they can ensure that callers are fully advised on their obligation to put rent payment first.
 - iii. Elevate has linked with the Job Shop and all early stage arrears letters now carry the details about how to get advice on obtaining employment or improving employment.

Reside collection performance

- 2.16 In addition to collecting for the Council tenancies, Elevate also collect the rent for the Barking & Dagenham Reside portfolio on behalf of the Reside Board. In the last quarter, the portfolio became fully let and the total value of the collectable debt increased. A number of issues in relation to the tenancies, which inhibited the ability to pursue debts, were resolved late into the quarter. This means that recovery action has now escalated to the service of legal notices and County Court hearing dates in order to bring about evictions. Collection has improved since Notices were able to be served and it is anticipated that this will result in improved rent collection performance through the rest of the financial year. At the end of the third quarter collection had reached 96.90%.

Leaseholders' debt collection performance

- 2.17 The leasehold collection target for 2014/15 is 97.5%, an increase of 5.7% on the 2013/14 target and reflective of previous strong collection performance. At the end of the third quarter collection reached 76.76%, which is 2.81% above profile target. Elevate has achieved this ongoing improvement by maintaining a rigorous recovery timetable throughout the year ensuring late payers are consistently reminded to pay as early as possible.

General Income collection performance

- 2.18 General Income is used to describe the ancillary sources of income available to the Council which support the cost of local service provision. Examples of areas from which the Council derives income collected by Elevate include: social care charges; rechargeable works for housing; nursery fees; trade refuse; hire of halls and football pitches. The Oracle financial system is used for the billing and collection of these debts and is also used to measure the performance of Elevate for its activities across all lines.
- 2.19 The collection target for 2014/15 is set at 95.00%. The target for the end of the third quarter was 80% and collection reached 89.63%. It should be noted that monthly targets are based upon trends in previous years.

Arrangements for residents to pay larger debts

- 2.20 In November, the Council reviewed its fees and charges and this included increasing the cost of some services such as the installation of dropped kerbs. At that meeting, clarification was sought on the ability for residents to pay on arrangements.
- 2.21 The Council does agree payment arrangements with residents depending on a number of factors. As an illustration, in the case where a resident requests a drop kerb to be installed at a cost of approximately £1,000, the Council's standard position, as it is for all general income debts is that payment in full would normally be required. However, the circumstances of the resident will always be taken into account along with the value of the debt and residents are advised to contact the Council as early as possible to identify potential options. For a typical arrangement, the average period of time provided for full payment would be three to six months with up to nine months where hardship or other extenuating circumstances are encountered. It is difficult to be very prescriptive on terms due to the individual nature of both the resident and the debt.
- 2.22 It is important to clarify that the Council does not provide a universal offer to pay in instalments to residents on any type of debt in order to protect its cashflow. It is also only seeking to promote this option for residents receiving specific services highlighted, e.g. dropped kerbs, and not for all debts or to businesses.

ACS Homes and ACS Residential - Collection of social care charges (home and residential)

- 2.23 The Council's Fairer Contribution Policy commenced from October 2011 and applies to home care. Residential care charges are covered by the Department of Health's *Charging for Residential Accommodation Guide* (CRAG).
- 2.24 Collection of debt for Home and Residential Care are reported separately. The agreed measure for 2014/15 is the amount collected against the in-year debt that has been invoiced.

- 2.25 Residential care debt which the Council has secured with a charging order against the client's assets, usually their property, is not included in these figures.
- 2.26 The collection rate for Home Care for the third quarter is 78.49% which is 3.49% above the profile target.
- 2.27 The collection rate for residential care debt for the third quarter is 75.66%.
- 2.28 The debt recovery process for these debts is similar to that of other debts, but with added recognition given to particular circumstances. In order to ensure that the action taken is appropriate and to maximise payments each case is considered on its own merits at each stage of the recovery process and wherever possible payment arrangements are agreed. In addition a further financial reassessment of a client's contribution is undertaken where there is extraordinary expenditure associated with the care of the service user.

Environment: Penalty Charge Notices

- 2.29 This recovery work only includes debts due to Penalty Charge Notices (PCNs) for parking, bus lane and box junction infringements once a warrant has been obtained from the Traffic Enforcement Centre (TEC). Elevate enforce these warrants through enforcement agents acting on behalf of the Council and closely monitor the performance of these companies. Overall collection rates on PCNs will be reported by Environmental and Enforcement Services (Parking Services). Performance is measured once a batch of warrants has expired, i.e. after 12 months. Since April 2014, 15 batches of warrants have expired for which the collection rate is 13.09%.
- 2.30 Effective collection of warrants is affected by how long it takes to obtain the warrant after the PCN is issued. On average during 2013/14 it took 227 days (7 months) to obtain warrants. The Enforcement Agents propensity to pay analysis of warrants rates most of them either 'poor' or 'hopeless'.

Housing Benefit Overpayments

- 2.31 For the third quarter of 2014/15 collection totalled £2.646m. This is £58,000 above the profile target.
- 2.32 During the third quarter the government initiated a process known as Real Time Information (RTI) by which HMRC data available to the DWP has been shared with local authorities. This has resulted in approximately £1m in additional overpayments being raised in November and December.

Enforcement Agent (Bailiff) Performance

- 2.33 Enforcement agent action is a key tool for the Council to recover overdue debts but is only one area of collection work. The start of a local Council Tax Support (CTS) scheme in 2013/14 meant around 13,000 additional households became liable to pay Council Tax. The additional debt recovery action seen in 2013/14 as a result of CTS has been repeated so far during 2014/15. This is not a static group as residents move in and out of work. Elevate's ability to collect sums due on behalf of the Council continues to be made progressively harder as welfare reforms take effect alongside the cumulative yearly effect of CTS on arrears leading to residents overall indebtedness increasing.
- 2.34 Information on the performance of the enforcement agents is set out in the table below by type of debt for 2014/15. It should be noted the debt recovery process for in year collection does not reach the stage of enforcement action generally for Council Tax and Commercial Rent until late in the second quarter. We would

therefore expect to see the improvement from the last report continued into the fourth quarter.

Table 3: Enforcement Agent Collection Rates – 2014-15 Quarter 3

Service	Value sent to enforcement agents £	Total collected by enforcement agents £	Collection rate
Council Tax	5,775,301	366,913	6.35%
NNDR	1,457,591	295,534	20.3%
Commercial rent	0.00	0.00	NA
General Income	25,574	9557	37.0%

Arrears and Debt Write-off: Quarter 3 2014/15

2.35 At the end of the third quarter across all lines of debt the total amount of arrears outstanding was £38.6m compared to £43.7m at the start of the financial year. Housing benefit overpayments arrears have increased because of the RTI government initiative described in 2.32. Other areas of debt require tracing to establish current whereabouts and processing for write off.

2.36 A comparison of arrears outstanding at the start of the financial year and the end of the third quarter is provided below:

Table 4: Arrears Comparison Figures – 2014-15 Quarter 3

Debt value at date	Council Tax	NNDR	General Income	HBOP	Rents: Former Tenant	Leasehold	Rents: Current Tenants	Total
1/4/14	£18m	£4m	£2.5m	£11m	£2m	£2.20m	£4.0m	£43.7m
31/12/14	£16.4	£3.8m	£0.85m	£11.5	£1.8m	£0.85	£3.4m	38.6m

2.37 All debt recommended for write off is administered within the Council's policy. The authority to write off debts remains with the Council. The value of debt recommended to the Chief Finance Officer and subsequently approved for write off during the third quarter of 2014/15 totalled: £85,569. This is lower than in quarter two as no Business Rates or Former Tenant write-offs took place due to resources being concentrated on collecting recoverable debts. The value and number of cases written off in quarter three is provided in Appendix A.

2.38 227 debts were written off in quarter three for which the reasons are set out below. The percentage relates to the proportion of write offs by value:

Table 5: Write Off Numbers – 2014-15 Quarter 3

Absconded/not traced	Uneconomic to pursue	Debtor Insolvent	Deceased	Other reasons
63 (27.8%)	91 (40.1%)	4 (1.8%)	26 (11.5%)	43 (18.9%)

(The 'other reasons' category includes examples such as: where the debt liability is removed by the Court or the debtor is living outside the jurisdiction of the English Courts and is unlikely to return).

- 2.39 The figures in Appendix B show the total write-offs for 2011/12, 2012/13 and 2013/14 and so far for 2014/15.

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

- 2.40 In line with Council policy established in 2007, due to the difficulties of finding absconding debtors, a list showing the details of some debtors who have had debts written off is attached to this report at Appendix C. The list has been limited to the ten largest debts only and can be used in the public domain.

3. Financial Implications

Implications completed by: Carl Tomlinson, Group Finance Manager

- 3.1 Collecting all sums due is critical to the Council's ability to function. In view of this, monitoring performance is a key part of the monthly meetings with Elevate.
- 3.2 The monthly meetings between Elevate and the Council focus on the areas where the targets are not being achieved and discuss other possibilities to improve collection.
- 3.3 As at the end of quarter three 2014/15, Elevate are exceeding collection targets for the majority of debt types with NNDR 0.4% behind target. The Council has written off debts of £85,569 in quarter three bringing cumulative write-offs year to date to £1,460,457, with the majority of write offs attributable to business rates and former tenant arrears. Maximising income collection is essential for the council and the pursuit of newer collectable debts before they become older uncollectable debts is key to this. It is important that bad debts are written off promptly for budgeting purposes so the Council can maintain appropriate bad debt provision.
- 3.4 The Council has initiated two projects to review previously written off debt to identify if any is now recoverable. Both exercises are on a 'no collection, no fee' basis with any monies collected shared between the Council and the collecting partner.

4. Legal Implications

Implications completed by: Paul Feild, Senior Governance Lawyer

- 4.1 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.
- 4.2 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 has to 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.

- 4.3 Whilst the recent use of Introductory Tenancies as a form of trial tenancy may have some impact as only those tenants with a satisfactory rent payment history can expect to be offered a secure tenancy, the best approach is to maintain a dialogue with tenants and highlight the importance that payment of rent and Council tax ought to be considered as priority debts rather than credit loans as without a roof over their heads it will be very difficult to access support and employment.
- 4.4 The decision to write off debts has been delegated to Chief Officers who must have regard to the Financial Rules.

5. Other Implications

- 5.1 **Risk Management** - No specific implications save that this report acts as an early warning system to any problems in the area of write offs.

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

List of appendices:

Appendix A – Debt Write Off Table for Quarters 1 2 and 3 for 2014/15.

Appendix B – Total debts written off in 2011/12, 2012/13, 2013/14 and 2014/15.

Appendix C – Ten Largest Debts Written Off in Quarter 3, 2014/15