

CABINET

19 July 2016

Title: Debt Management Performance and Write-Offs 2015/16 (Quarter 4)	
Report of the Cabinet Member for Finance, Growth and Investment	
Open Report	For Decision
Wards Affected: None	Key Decision: No
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Accountable Director: Jonathan Bunt, Strategic Director of Finance and Investment	
Summary This report sets out the performance of the Council's partner, Elevate East London, in carrying out the contractual debt management function on behalf of the Council. This report covers the fourth quarter of the financial year 2015/16. The report also includes details of debt written off in accordance with the write off policy that was approved by Cabinet on 18 October 2011.	
Recommendation(s) Cabinet is recommended 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 enforcement agents; and (ii) Note the debt write-offs for the fourth quarter of 2015/16; and (iii) Agree that the practice of publicising the top 10 debtors cease, as there has been no examples where members of the public have identified any of those debtors which would have enabled Elevate to re-instate recovery action.	
Reason Assisting in the Council's Policy aim of ensuring an efficient organisation delivering its statutory duties in the most practical and cost-effective way. This ensures good financial practice and adherence to the Council's Financial Rules on the reporting of debt management performance and the total amounts of debt written-off each financial quarter.	

1. Introduction and Background

- 1.1 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. It also collects rent on behalf of Barking and Dagenham Reside. Council debts not collected by Elevate are not included in this report, for example parking and road traffic debt prior to warrants being granted and hostel and private sector leasing debt.
- 1.2 This report sets out performance for the fourth quarter of the 2015/16 municipal and financial year and covers the overall progress of each element of the service since April 2015. In addition it summarises 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 18th October 2011.

2. Proposal and Issues

- 2.1 Set out in Table 1 below is the performance for 2015/16 achieved for the main areas of debt managed by Elevate.

Table 1: Collection Rate Performance – 2015-2016

Type of Debt	Yearend target	Performance	Variance	Actual collected £m
Council Tax	95.0%	94.8%	-0.2%	60.146
Council Tax Arrears	£1.827m	£2.276m	+£0.449m	2.276
NNDR	98.1%	98.2%	+0.1%	55.634
Rent	99.24%	99.02%	-0.22%	101.380
Leaseholders	98.00%	96.86%	-1.14%	3.818
General Income	95.35%	95.60%	+0.25%	99.388

Council Tax Collection Performance

- 2.2 Council Tax collection ended the quarter 0.2% below the profile target. Nevertheless the collection rate of 94.8% represents the Council's highest collection since 2009/10.
- 2.3 Indications are that taxpayers continue to find payment of Council Tax challenging with the number of reminders sent increasing in 2015/16 by 2,427 (7.84%) and summonses increasing by 1,275 (8.9%) compared to 2014/15.

Council Tax Arrears

- 2.4 By the end of quarter four £2.3m had been collected, this is £0.45m above the target and £0.641m above the arrears collected in 2014/15.
- 2.5 As with in-year Council Tax, the more proactive approach taken in 2015/16 to collection allowing taxpayers to catch up and taking a more holistic view of their debt has resulted in an significant rise in arrears collection.
- 2.6 It is never the case that all the Council Tax for a particular year is collected in that year with work to collect unpaid Council Tax continuing in the years that follow. In 2013/14 the introduction of Council Tax Support resulted in a drop in collection from 94.6% to 94.1%, however in the years that follow collection continued and by the end of 2015/16 the collection rate for 2013/14 had risen to 96.6 an increase of 2.5%, which is the equivalent of an extra £1.3m in revenue.
- 2.7 The Council Tax team's ability to adapt to the challenges presented by the Council Tax Support scheme, the increasing number of properties within the borough and the increase in the Council Tax charge have improved collection rates year on year to the improved levels now seen in Barking and Dagenham.

Table 2

Year	Charge Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
2009/10	92.9	95.0	95.7	96.1	96.4	96.6	96.8
2010/11	92.9	95.0	95.7	96.1	96.3	96.6	
2011/12	94.1	95.7	96.3	96.6	96.8		
2012/13	94.6	96.2	96.6	96.9			
2013/14	94.1	96.0	96.6				
2014/15	94.3	96.1					
2015/16	94.8						

Business Rates (NNDR) Collection Performance

- 2.8 The NNDR collection rate reached 98.2% by the end of the year.
- 2.9 Despite the financial climate and the detrimental effect this has upon businesses within the Borough, Elevate's work in collecting business rates resulted in the highest collection rate achieved since 2009/10 and was 0.1% above the target.

Rent Collection Performance

- 2.10 As at the end of quarter 4, the actual cash collection stood at 99.02% which was 0.22% below the target of 99.24% (£224k). In addition the arrears rose during the year finishing at £4.2m, up £1m from the end of 2014/15. There were a number of challenges faced by the rents team during the year including:
- Housing Benefit income to the HRA has reduced. The proportion of the rent paid by HB was 49.17% this year compared to 51.33% the year before, equivalent to around £2.274m lost income for the full year. This has come about because:

1. Welfare reform, including measures such as the bedroom tax and benefit cap.
2. A 37% reduction in the budget for Discretionary Housing Payment (DHP) compared to 2014/2015. Some residents were becoming reliant on the scheme for short term / long term support and the reduction in budget has meant that there is a greater requirement to demonstrate financial hardship and show reasonable steps taken to improve the tenant's financial situation. This has reduced a potential source of short term support to tenants and therefore, indirectly, income for the HRA.
3. The HB caseload for council tenants fell by 1.53% from April 2015 to March 2016 which means a greater level of debt becomes collectable from the resident. Due to the varying Welfare Reform changes residents are finding that entitlements have reduced or they more frequently drop in and out of entitlement.

2.11 The challenges were combated by:

- further promoting DHP where possible,
- monthly door step campaigns
- Utilising an external outbound calling debt recovery service, and.
- additional support through outbound calling was made to tenants in arrears

Reside Collection Performance

2.12 In addition to collecting rent owed on Council tenancies, Elevate also collect the rent for the Barking & Dagenham Reside portfolio.

2.13 Rent collection excluding former tenant arrears is stable with a collection rate of 98.65%.

Leaseholders' Debt Collection Performance

2.14 At the end of the fourth quarter collection reached 96.86%, with a total £3.818m having been collected in the year. This was 1.14% (£0.045m) below target. The number of accounts with arrears at year end achieved a new low of 349 (£0.274m) accounts. In 2010/11 the number of accounts in arrears at year end totalled 934 (£0.459m). This reduction has been achieved by ongoing improvement in maintaining a rigorous recovery timetable throughout the year ensuring late payers are consistently reminded to pay as early as possible. This improvement has not involved writing debt off as leasehold debt is very rarely written off given that the Council is able to force a sale in order to recover debt where required.

General Income Collection Performance

2.15 General Income is the term 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 Elevate's performance.

- 2.16 At the end of quarter four collections in this area remained strong reaching 95.60% against a target of 95.00%.

A&CS Homes and A&CS Residential – Collection of Social Care Charges (home and residential)

- 2.17 The Council introduced a new Care and Support Charging policy for 2015/16 following the government introduction of the Care Act 2014.
- 2.18 Collection of debt for Home and Residential Care is reported separately. 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. The agreed measure for 2015/16 is the amount collected against the in-year debt that has been invoiced.
- 2.19 The collection rate for Home Care by the end of quarter four reached 75.14% which was 4.86% (£0.043m) below target. The lower than expected collection rate is due to the timing of the four weekly billing and variations in the bills issued. For Home Care charges for previous years the collection rate was 87.24%. For Residential Care charges the in year collection rate was 87.69% and for earlier years it was 95.88%.
- 2.20 The debt recovery process for these debts is similar to that of other debts, but with extra 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. The relevant procedures have been updated to take account of the Care Act.

Penalty Charge Notices (PCN) – Road Traffic Enforcement

- 2.21 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 by Environmental and Enforcement Services (Parking Services) 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 would be reported by Parking Services. Elevate's collection performance is measured only once a batch of warrants has expired, i.e. after 12 months. Since April 2015, 24 batches of warrants have expired for which the collection rate was 14.60% an improvement on the figure reported for 2014/15 of 12.85%. The total amount of cash collected through enforcement of road traffic warrants was £551,613 by the end of year.
- 2.22 Effective collection of warrants is affected by how long it takes to obtain the warrant after the PCN is issued. Enforcement Agents' "propensity to pay" analysis of older warrants (warrants received older than 5 or 6 months after the PCN was issued) classified most of them either 'poor' or 'hopeless' because older, aged debt is much

harder to collect. This can and has adversely affected the overall success of collection against the target. During 2015/2016 delays were present at an average of 7 months and full a review of the end to end process for Parking has been done as well as the introduction of a new system to combat this issue and in the last quarter Parking improved the average time to 6 months.

Housing Benefit Overpayments

- 2.23 By the end of the fourth quarter of 2015/16 collection totalled £5.066m and £12.611m was raised in the year compared to £8.612m in 2014/15. The rise was largely due to the delays in HB processing experienced in the first 8 months of the year from April to November 2015. The delays in processing meant that when an overpayment was created it was created over a larger period. For example a change that resulted in a decrease of benefit was notified in April 2015 however if that change was not processed until July 2015 the overpayment is larger because we have continued to pay an incorrect level of benefit through April, May, June and July.
- 2.24 During the first quarter of 2015/16 central government confirmed the continuation of the “Real Time Information (RTI)” process. This means HMRC data will continue to be made available to the Department of Works and Pensions and shared with local authorities enabling data matching against Council records. This data will continue to ensure that the information used to assess claims for Housing Benefit and CTS, is accurate. This will result in additional overpayments and underpayments being raised. Despite RTI, collection stood at 43.08% for 2015/16 compared to 40.17% for 2014/15 as more resource was applied to Housing Benefit overpayment team in order to mitigate the effect of RTI. In the last full year before RTI 46.25% collection was achieved.

Enforcement Agent (Bailiff) Performance

- 2.25 Enforcement agent action is a key tool for the Council to recover overdue debts but is only one area of collection work and is always the action of last resort. The introduction of the CTS scheme in 2013/14 meant around 13,000 additional households became liable to pay a proportion of Council Tax. This number increased again in April 2015 with the revised CTS scheme meaning that there has been additional debt recovery action. The affected group of residents are working age but their circumstances vary as they move in and out of work. Elevate’s ability to collect all sums due on behalf of the Council continues to be made progressively more challenging as welfare reforms continue to take effect. This is alongside the cumulative yearly effect of CTS on arrears which is increasing overall indebtedness. This situation will continue in 2016/17.
- 2.26 Information on the performance of the enforcement agents is set out in the table below by type of debt for the fourth quarter of 2015/16. This shows that collection of Council Tax improved significantly with more work dedicated to case selection by the team.

Table 3: Enforcement Agent Collection Rates – 2015/16

Service	Value sent to enforcement agents £	Total collected by enforcement agents £	2015/16 Collection rate %	2014/15 Collection rate %
Council Tax	£3,009,929	£842,160	27.98%	11.42%
NNDR	£537,152	£111,2785	20.72%	20.49%
Commercial rent	£75,405	£71,188	94.41%	NA
General Income	£74,265	£13,011	17.5%	33.75%

Debt Write-Offs: Quarter 4 2015/16

- 2.27 All debt deemed suitable for write off has been through all the recovery processes and is recommended for write off in accordance with the Council's policy. The authority to "write off" debt remains with the Council. The value of debt recommended to the Strategic Director, Finance & Investment and subsequently approved for write off during the fourth quarter of 2015/16 totalled £1,263,027. The value and number of cases written off in quarter four is provided in Appendix A.
- 2.28 908 debts were written off in quarter four for which the reasons are set out below. The percentage relates to the proportion of write offs by value:

Table 4: Write off numbers – 2015/16 Quarter 4

Absconded/not traced	Uneconomic to pursue	Debtor Insolvent	Deceased	Other reasons
£494,131	£512,733	£122,331	£111,445	£22,387
39.12%	40.60%	9.69%	8.82%	1.77%

Absconded/not traced	Uneconomic to pursue	Debtor Insolvent	Deceased	Other reasons
206	459	47	162	34

(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).

- 2.29 The figures in Appendix B show the total write-offs for 2011/12, 2012/13, 2013/14, 2014/15 and for 2015/16.

Publication of Individual Details of Debts Written Off (Appendix C)

- 2.30 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. Debts not included are listed below:

- 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).

2.31 In relation to the publication requirement it was initiated so that members of the public may be able to identify debtor's whose debts had been rewritten off so that recovery action could be recommenced. However, in the 9 years since this practice started there is no record of this having happened. For this reason it is recommended that the practice of reporting the top 10 debts written off is ended.

3. Consultation

3.1 This report has been prepared by Elevate and finalised with the agreement of the Strategic Director of Finance and Investment.

4. Financial Issues

Implications completed by: Kathy Freeman, Finance Director

4.1 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.

4.2 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. Any shortfall against the targets impacts on the income position budgeted for by the Council. Although the level of Council Tax collected is the highest achieved to date, this has followed after a significant amount of investment of £369,000 for additional resources within the team.

4.3 Although the performance on rent collection missed the target by 0.22%, which equated to loss of income of £224,000, there has also been an increase of over £1m of current tenant arrears.

4.4 For 2015/16, Elevate have written off £2,343,041 of debts. It is important that bad debts are written off promptly for budgeting purposes so the Council can maintain appropriate bad debt provision.

4.5 If debts are not promptly collected, this will have an adverse impact on the Council's overall financial position. Increases required to the Council's bad debt position are

charged to the Council's revenue accounts and reduces the funding available for other expenditure.

5. Legal Issues

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

- 5.1 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.
- 5.2 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.
- 5.3 Whilst the use of Introductory Tenancies as a form of trial tenancy may have some impact in terms promoting prompt payment of rent as only those tenants with a satisfactory rent payment history can expect to be offered a secure tenancy, people can fall behind and get into debt. The best approach to resolve their predicament is to maintain a dialogue with those in debt to the Council, to offer early advice and help in making repayments if they need it and to highlight the importance of payment of rent and Council tax. These payments ought to be considered as priority debts rather than other debts such as credit loans as without a roof over their heads it will be very difficult to access support and employment and escape from a downward spiral of debt.
- 5.4 The decision to write off debts has been delegated to Chief Officers who must have regard to the Financial Rules.

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

List of appendices:

- **Appendix A** – Debt Write Off Table for Quarter 1, Quarter 2, Quarter 3 and Quarter 4 2015/16.
- **Appendix B** – Total debts written off in 2011/12, 2012/13, 2013/14, 2014/15 and 2015/16.
- **Appendix C** – Ten Largest Debts Written Off in Quarter 4, 2015/16