

## CABINET

21 March 2017

<b>Title:</b> Debt Management Performance and Write-Offs 2016/17 (Quarter 3)	
<b>Report of the Cabinet Member for Finance, Growth and Investment</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> Kathy Freeman, Finance Director	
<b>Accountable Director:</b> Claire Symonds, Chief Operating Officer	
<b>Summary</b> <p>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 third quarter of the financial year 2016/17. The report also includes summaries of debt written off in accordance with the write off policy that was approved by Cabinet on 18 October 2011.</p> <p>Performance is in line with expectations overall, in particular in the light of the impact of welfare reform on collection.</p> <p>Stretch targets have been agreed with Elevate for 2016/17, meaning that in some areas their performance may be below target, but is above last year's collection achievement at the same time of year.</p> <p>There has been investment in new ways of working, and we are beginning to see further improvements to collection as a result.</p>	
<b>Recommendation(s)</b> <p>Cabinet is recommended to:</p> <ul style="list-style-type: none"><li>(i) Note 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</li><li>(ii) Note the debt write-offs for the third quarter of 2016/17.</li></ul>	
<b>Reason</b> <p>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</p>	

debt management performance and the total amounts of debt written-off each financial quarter.

## 1. Introduction and Background

- 1.1 The Council's joint venture company, Elevate East London LLP (Elevate), operates the Council's Revenues, Benefits, General Income and Rents Service. The service is responsible for the management and collection of the Council's debt. 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 third quarter of the 2016/17 financial year and covers the overall progress of each element of the service since April 2016. 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. Performance of the Collection Services in Quarter 3

- 2.1 Table 1 below sets out the performance achieved for the main areas of debt for quarter three, 2016/17.

Table 1: Collection Rate Performance – Quarter Three 2016/17

Type of Debt	Year-end target	Quarter 3 target	Quarter 3 Performance	Variance	Actual collected £m
<b>Council Tax</b>	95.6%	82.7%	81.9%	-0.8%	£54.593m
<b>Council Tax Arrears</b>	£1.992m	£1.527	£1.842	+£0.315m	£1.842m
<b>NNDR</b>	98.2%	78.5%	77.2%	-1.3%	£46.335m
<b>Rent</b>	98.16%	72.76%	71.88%	-0.88%%	£75.462m
<b>Leaseholders</b>	98.00%	74.69%	75.93%	+1.24%	£3.195m
<b>General Income</b>	95.60%	85.00%	91.13%	+6.13%	£66.814m

### Council Tax Collection Performance

- 2.2 Council Tax collection ended the quarter 0.8% (£133k) below the profile target at 81.9%. However, this is 0.5% above last year at the same time or the equivalent of £322k additional revenue. It is anticipated that the gap will narrow in the last quarter with more payments scheduled to arrive in February and March, because of tax payers catching up on payments missed earlier in the year and a higher number paying by 12 instalments compared to previous years.

- 2.3 Council Tax collection remains challenging with Council Tax Support (CTS) reducing by 3.1% (£418km) and the number of CTS claimants having reduced by 1,053 since the start of the year. This reduction in CTS payments has resulted in an increase in the amount of Council Tax to be collected from those residents most likely to be in financial difficulty. The typical methods of enforcement (enforcement agents and committal) are least effective with these residents. A longer-term approach has been adopted, allowing them more time to catch up with their arrears before facing enforcement action.

### Council Tax Arrears

- 2.4 By the end of quarter three £1.527m had been collected; this is £0.315m above the target.
- 2.5 As with in-year Council Tax, a more proactive approach taken in 2015/16 has been continued into 2016/17. This approach, which allows taxpayers to catch up and take a more holistic view of their debt, has resulted in a significant rise in arrears collection.
- 2.6 Council Tax collection for all prior years continues and is classified as arrears. Whilst pursuit of these debts does not cease, the older the debt becomes the harder it is to collect. In many older cases the debtor has absconded and cannot be traced. The table below shows the collection rates for each year in which the debt is raised and what percentage has been collected over time.
- 2.7 The Council Tax team focus on collecting both current and arrears debts to ensure that customers do not accrue unmanageable Council Tax arrears. Since the introduction of CTS this has become a vital part of the service and every effort is made to help customers bring their accounts up to date in the shortest possible time period.

Table 2: Cumulative Council Tax Collection

Quarter 3 - 2016/17								
Year	Charge Year (Current)	Year 1 (Arrears)	Year 2 (Arrears)	Year 3 (Arrears)	Year 4 (Arrears)	Year 5 (Arrears)	Year 6 (Arrears)	Year 7 (Arrears)
2009/10	92.9	95.0	95.7	96.1	96.4	96.6	96.8	96.8
2010/11	92.9	95.0	95.7	96.1	96.3	96.6	96.7	
2011/12	94.1	95.7	96.3	96.6	96.8	97.0		
2012/13	94.6	96.2	96.6	96.9	97.1			
2013/14	94.1	96.0	96.6	96.8				
2014/15	94.3	96.1	96.6					
2015/16	94.8	96.1						

## **Business Rates (NNDR) Collection Performance**

- 2.8 The NNDR collection rate achieved 77.2% by the end of the third quarter. This is 1.3% below the target of 78.5%.
- 2.9 The collection rate for quarter 3 continued to be affected by the same factors reported in quarter 2 in that new businesses starting in the borough have increased the net collectable debit by £348k since April 2016. These in year changes create a charge to the end of the year, but, as NNDR is payable monthly and there is a lag before payments start, this lowers the collection rate in the short term. The largest new companies are Coca Cola, The Go-ahead Group and Veolia ES (UK) Ltd. Payments are being received so the collection rate is expected to recover in the fourth quarter.

## **Rent Collection Performance**

- 2.10 As at the end of quarter three, the collection stood at 71.88% which was 0.88% below the target of 72.76% (£900k). Housing Benefit (HB) income to the HRA has reduced significantly over the last few years. The proportion of the rent paid by HB was 49.17% in 2015/16 compared to 51.33% in 2014/15. So far this year it has fallen further to 46.44% (a change of £2.3m). The HB caseload has fallen this year from 11,980 in March to 11,597 in December, a fall of 383 or 3.2%.
- 2.11 These challenges are being combatted by:
- A comprehensive continuous service improvement plan;
  - The deployment of additional resources;
  - Utilising DHP where possible;
  - Regular rent campaigns - on door step and by telephone;
  - Additional support through outbound calling made to tenants in arrears;
  - Process automation to maximise the time available to focus on dealing with tenants in arrears; and
  - Debt segmentation and other customer insight initiatives.

## **Reside Collection Performance**

- 2.12 In addition to collecting rent owed on Council tenancies, Elevate also collects the rent for the B&D Reside portfolio.
- 2.13 Rent collection, excluding former tenant arrears, is stable with a collection rate of 99.35%.

## **Leaseholders' Debt Collection Performance**

- 2.14 At the end of the third quarter collection reached 53.09%, with a total of £2.234m having been collected, this is 2.45% above target. Continued good performance is supported by early contact with those tenants falling behind with payments.

## **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 One Oracle financial system is used for the billing and collection of these debts and also to measure Elevate's performance.

- 2.16 At the end of quarter three collections in this area remained strong reaching 91.13%.

### **Adults' Care and Support: – Collection of Care Charges (Community and Residential)**

- 2.17 The Council introduced a new Care and Support Charging policy for 2015/16 following the implementation of the Care Act 2014.
- 2.18 Collection of debt for contributions to costs of Community and Residential Care is reported separately. Residential care debt which the Council has secured by way of a property charge under its Deferred Payment scheme, is not included in these figures. The agreed measure for 2016/17 is the amount collected against the in-year debt that has been invoiced.
- 2.19 The collection rate for contributions to Community Care costs by the end of quarter three reached 69.12% which was 4.12% above target for the quarter. The collection rate was 86.54% for prior year charges. For contributions to Residential Care charges the in-year collection rate was 80.74% and arrears 94.64%.
- 2.20 The debt recovery process for these debts is similar to that of other debts, but with extra recognition given to particular circumstances. 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.
- 2.22 Overall collection rates on PCNs are reported by Parking Services. Elevate's collection performance is measured only when a batch of warrants has expired, i.e. after 12 months. Since April 2016, 14 batches of warrants have expired for which the collection rate is 15.3%. The total amount of cash collected through enforcement of road traffic warrants is £548,977 for quarters one, two and three.

## Housing Benefit Overpayments

- 2.23 By the end of the third quarter collection totalled £3,659,656 with £9,687,587 having been raised in new overpayment debt from April to Dec 2016. A driver of the increase in invoicing is the receipt by the Benefits Service of a high volume of cancellation notices from the DWP following an exercise to identify discrepancies within customer's applications.
- 2.24 The total outstanding Housing benefit overpayment debt for the Council stands at £22,350,409 - 25% was created between July 2002 and March 2013 and 75% was created from April 2013 to date. The below table provides a yearly breakdown.
- 2.25 Approximately 68% of the total outstanding debt is being actively recovered via arrangements, tracing, letters to customers and through the referral of debts to debt recovery agencies.
- 2.26 As a result of two recently concluded DWP fraud investigations a total £752k of debt has been created. These are part of a larger multi-borough investigation which has increased the amount of overpayments outstanding.

Years debt created	Value of outstanding overpayments @Dec 2016	%
July 2002 to March 2007	£504,940	2%
April 2007 to March 2013	£337,765	23%
April 2008 to March 2009	£474,830	
April 2009 to March 2010	£764,570	
April 2010 to March 2011	£971,831	
April 2011 to March 2012	£1,242,406	
April 2012 to March 2013	£1,324,278	75%
April 2013 to March 2014	£1,626,503	
April 2014 to March 2015	£2,380,546	
April 2015 to March 2016	£5,884,875	
April 2016 to Dec 2016	£6,837,867	
	Total £22,350,409	100%

- 2.27 Collection at the end of the third quarter stands at 37.8%. The target is 42%, meaning that current performance is 4.2% below target. This shortfall is due to the rapid increase in overpayments arising from DWP notifications. A new national system for recovering overpayments from other state benefits will be fully implemented during the next quarter.

## Enforcement Agent (Bailiff) Performance

- 2.28 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.
- 2.29 Information on the performance of the enforcement agents is set out in the table below by type of debt for the first and second quarter of 2016/17.

Table 3: Enforcement Agent Collection Rates – 2016/17

Service	Value sent to enforcement agents £	No. of cases	Total collected by enforcement agents £	2016/17 Collection rate %
Council Tax	£2,463,941	3926	£257,920	10.47%
NNDR	£1,402,245.27	336	£268,030.40	19.15%
Commercial Rent	£47,242.87	14	£47,242.87	100.00%
General Income	£107,498.08	163	£42,892.11	39.90%

### Debt Write-Offs: Quarter 2 2016/17

- 2.30 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 Chief Operating Officer and subsequently approved for write off during the second quarter of 2016/17 totalled £254,982. The value and number of cases written off in quarter one and two is provided in Appendix A. The total amount for the year so far is £354,132.
- 2.31 Two hundred and thirty-one 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, or by number:

Table 4: Write off numbers – 2016/17 Quarter 3

Table 4(i) By value

Absconded / not traced	Uneconomic to pursue	Debtor Insolvent	Deceased	Other reasons
£0.00	£13,666.25	£299.67	£14,733.53	£4,400.43
0.00%	41.29%	0.91%	44.51%	13.29%

Table 4(ii) By number

Absconded / not traced	Uneconomic to pursue	Debtor Insolvent	Deceased	Other reasons
0	38	1	33	9
0.00%	46.91%	1.23%	40.74%	11.12%

(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).

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

### **3. Consultation**

3.1 This report has been prepared by Elevate and finalised with the agreement of the Chief Operating Officer.

### **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.

4.3 At the end of quarter 3, collection on Council Tax, Rents and NNDR are all behind the profiled target. It is extremely important that performance improves to prevent the Council from suffering a financial loss. Elevate have deployed additional resources to improve collection on Council Tax and there is a service improvement plan in place to improve collection on Rent.

4.4 The level of write offs at the end of quarter three is £354,152. 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: Martin Hall, Housing Solicitor/Team Leader

5.1 Monies owed to the Council in the form of debts are an asset that has 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, insofar as possible. 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, such as pre-action correspondence and arrangements to pay 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 pursuing the debt outweighing the benefit to be obtained, or where the tenant is not of financial means 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 12 month Introductory Tenancies may have some impact in terms of promoting prompt payment of rent, people can still fall behind and get into debt.
- 5.4 In almost all cases, the best approach 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.
- 5.5 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 2016/17, with a summary table and details for each quarter provided.
- **Appendix B** – Total debts written off in 2011/12, 2012/13, 2013/14, 2014/15 and 2015/16.