

CABINET

11 July 2017

Title: Debt Management Performance and Write-Offs 2016/17 (Quarter 4)	
Report of the Cabinet Member for Finance, Growth and Investment	
Open Report	For Information
Wards Affected: None	Key Decision: No
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Accountable Director: Kathy Freeman, Finance Director	
Accountable Director: Claire Symonds, Chief Operating Officer	
Summary <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 fourth and final 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 first approved by Cabinet on 18 October 2011 and with an updated version having been approved by Cabinet on 25 April 2017. Overall performance of Elevate East London is good, with most targets being met or exceeded.</p>	
Recommendation(s) <p>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 fourth quarter of 2016/17.	
Reason <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 debt management performance and the total amounts of debt written-off each financial quarter.</p>	

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 B&D 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 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.
- 1.3 The performance of Elevate East London has seen improvements in collection. The targets for Council Tax arrears, Business Rates, leasehold collection, and general income were all met. The targets for Council Tax and Rent collection were missed, but considering the effect of welfare reform performance has nevertheless improved year on year. The table below compares performance between 2015/16 and 2016/17. Rent collection is not comparable as the method of measurement has been changed.

Service	2015/16	2016/17	Increase / decrease
Council Tax current year	94.80%	95.50%	0.70%
Council Tax arrears	£2,276,112	£2,302,662	£26,550
General Income	95.60%	97.78%	2.18%
Leaseholders	96.86%	98.64%	1.78%
Community Care	75.14%	82.94%	7.80%
Business Rates	98.20%	98.30%	0.10%
Commercial Rent	96%	97.50%	1.50%

2. Proposal and Issues

- 2.1 Table 1 below sets out the performance achieved for the main areas of debt for quarter four, 2016/17. The percentage collection is shown alongside the amount collected, the total collected for these lines of debts is also shown.

Table 1: Collection Rate Performance – 2016/17

Type of Debt	Year-end target	Year-end Performance	Variance	Actual collected £m	2015/16 percentage	2015/16 Cash collected
Council Tax	95.60%	95.50%	-0.1%	£63.707m	94.8%	£60.146
Council Tax Arrears	£1.992m	£2.303m	+£0.311m	£2.303m	N/A	£2.276
NNDR	98.2%	98.3%	+0.1%	£58.035m	98.2%	£55.634
Rent	98.16%	96.75%	-1.41%	£101.422m	N/A	£101.380
Leaseholders	98.00%	98.64%	+0.64%	£4.151m	96.86%	£3.818
General Income	95.60%	97.78%	+2.18%	£101.186m	95.6%	£99.388
Total				£330.804m		£322,642

Council Tax Collection Performance

2.2 Council Tax collection ended the year 0.1% (£67k) below the profile target at 95.5%. This is 0.7% above last year and the equivalent of £433k additional revenue. It represents a real improvement and a continuation of the year on year improvements seen over recent times

2.3 Council Tax collection remains challenging with Council Tax Support (CTS) claimants having reduced by 1,491 since the start of the year or 12.45%. 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 year £2.303m had been collected; this is £0.311m above the target of £1.992m.

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 period.

Table 2: Cumulative Council Tax Collection

Quarter 4 - 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	96.9
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	96.9				
2014/15	94.3	96.1	96.7					
2015/16	94.8	96.4						

Business Rates (NNDR) Collection Performance

- 2.8 The NNDR collection rate achieved 98.3% by the end of the fourth quarter. This is 0.1% above the target of 98.2%.
- 2.9 It was reported in the report for each previous quarter of 2016/17 that collection was adversely affected by new businesses starting in the borough increasing the net collectable debit. These in year changes created a charge to the end of the year, but, as NNDR is payable monthly and there is a lag before payments start, this lowered the collection rate in earlier quarters. This meant that these payments came through in quarter 4 so that the target was not only met, but exceeded representing an excellent outcome for the year.

Rent Collection Performance

- 2.10 As at the end of the year rent collection had reached 96.75% which while below target of 98.16% it was up 0.25% on last year against a backdrop of continually falling HB. The proportion of the rent paid by HB was 49.17% in 2015/16 compared to 51.33% in 2014/15. In 2016/17, it fell further to 46.36%. The HB caseload has fallen this year from 11,980 in March to 11,495 in March, a fall of 485 or 4.1%.
- 2.11 Although rent collection was challenging in 2016/17 the HRA budget of £90,538 was exceeded by £330k.
- 2.12 The reduction in housing benefit claimants has affected rent collection, however Barking and Dagenham is not alone in facing this challenge. The table below contains data obtained from the DCLG showing the number of housing benefit claimants between March 16 and February 17. These figures are affected in some cases by the universal credit roll out, the demography of the borough and the speed of processing, but still shows that the reductions in claimants in Barking and Dagenham are not out of the ordinary.

London Borough	Mar-16	Feb-17	Variation	Percentage
Hounslow	21,290	17,181	-4,109	-19.3%
Croydon	34,540	28,153	-6,387	-18.5%
Sutton	11,805	9,701	-2,104	-17.8%
Southwark	35,113	30,650	-4,463	-12.7%
City of London	976	865	-111	-11.4%
Merton	12,721	11,904	-817	-6.4%
Lambeth	38,292	36,076	-2,216	-5.8%
Richmond upon Thames	9,320	8,880	-440	-4.7%
Hammersmith and Fulham	19,054	18,237	-817	-4.3%
Barking and Dagenham	21,753	20,824	-929	-4.3%
Kensington and Chelsea	16,892	16,219	-673	-4.0%
Bromley	18,228	17,512	-716	-3.9%
Lewisham	33,773	32,454	-1,319	-3.9%
Wandsworth	25,771	24,864	-907	-3.5%
Waltham Forest	24,779	23,951	-828	-3.3%
Islington	29,819	28,871	-948	-3.2%
Greenwich	27,269	26,526	-743	-2.7%
Kingston upon Thames	9,098	8,852	-246	-2.7%

Camden	26,299	25,618	-681	-2.6%
Ealing	32,548	31,719	-829	-2.5%
Haringey	34,289	33,432	-857	-2.5%
Tower Hamlets	35,654	34,768	-886	-2.5%
Hillingdon	20,403	19,914	-489	-2.4%
Newham	35,438	34,648	-790	-2.2%
Hackney	40,753	39,879	-874	-2.1%
Brent	36,247	35,492	-755	-2.1%
Redbridge	18,665	18,358	-307	-1.6%
Harrow	16,335	16,112	-223	-1.4%
Enfield	34,342	33,973	-369	-1.1%
Barnet	30,013	29,845	-168	-0.6%
Havering	14,522	14,445	-77	-0.5%
Bexley	14,075	14,046	-29	-0.2%
Westminster	23,963	24,084	121	0.5%
Total	804,039	768,053	-35,986	-4.5%

2.13 Throughout the year the rent team sought to meet these challenges by:

- Following a comprehensive continuous service improvement plan;
- Deploying of additional resources;
- Promoting DHP applications where possible;
- Carrying out regular rent campaigns - on the door step, by telephone, by text and by email;
- Targeted outbound telephone calls to tenants in arrears;
- Process automation to maximise the time available to focus on dealing with tenants in arrears; and
- Debt segmentation for targeted action.

Discretionary Housing Payments (DHP)

2.14 Elevate promotes DHP whenever possible and as a result 92% of the budget was utilised in 2016/17. A portion of the available DHP budget is allocated to Housing. Work continues with Housing to help them to utilise this funding going forward.

Reside Collection Performance

2.15 In addition to collecting rent owed on Council tenancies, Elevate also collects the rent for the B&D Reside portfolio.

2.16 Rent collection, excluding former tenant arrears, performed well with a collection rate of 99.54%.

Leaseholders' Debt Collection Performance

2.17 At the end of the year collection reached 98.64%, with a total of £4.151m having been collected, this is 0.64% above target. Continued good performance is supported by early contact with those tenants falling behind with payments.

General Income Collection Performance

- 2.18 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 to measure Elevate's performance.
- 2.19 At the end of the year collections in this area remained strong reaching 97.78% with £101.186m collected.

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

- 2.20 The Council introduced a new Care and Support Charging policy for 2015/16 following the implementation of the Care Act 2014.
- 2.21 Collection of debt for 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.
- 2.22 The current year collection rate for Community Care was 82.94% which was 2.94% above target for the year. The collection rate in 2016/17 for arrears cases was 87.35%, the year before this was 87.24%. For Residential Care charges the in-year collection rate was 82.64% and 94.85% for arrears.
- 2.23 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

- 2.24 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.
- 2.25 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 until 31 March 2017, 22 batches of warrants have expired for which the collection rate is 15.2% this is an increase in collection from

the previous year which was 14.6% The total amount of cash collected through enforcement of road traffic warrants that expired in the year is £780,713.

Housing Benefit Overpayments

- 2.26 By the end of the fourth quarter collection totalled £5,003,680 with £11,994,351 having been raised in new overpayment debt. 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. The total outstanding housing benefit overpayment debt for the council stands at £22,865,214 with approximately 65% of this debt being actively recovered via arrangements, tracing, letters to customers and through the referral of debts to a debt recovery agencies. As a result of two DWP fraud investigations a total £752k of debt has been created. These are part of a larger multi-borough investigation which has also increased the level of overpayments to be collected.
- 2.27 Collection at the end of the fourth quarter stands at 41.7% which is up from 37.8% at the end of quarter 3. The target is 42%, was therefore just missed.
- 2.28 The introduction of Real Time Information (RTI) by the DWP has greatly improved the timeliness and accuracy of information received by Local authorities regarding benefit claimants. Previously, Local Authorities relied upon the claimant to provide information to them regarding any changes in their circumstances, since the introduction of RTI this reliance has significantly reduced and claims can now be updated in a timely fashion. However, this resultant effect of this is to increase the amount of overpayment created.
- 2.29 Housing benefit is funded by central government and is claimed back by Local Authorities via the subsidy claim. Where benefit has been overpaid the full amount paid is claimed through the subsidy claim and the overpayment collected and retained by the Local Authority.
- 2.30 The data below has been obtained from the DCLG and shows the creation of overpayment by London boroughs from 2014/15 to 2015/16. Data for 2016/17 will not be available until September 2017.
- 2.31 The data shows that Barking and Dagenham saw an increase of 61% in overpayment between the two years. However, these figures are affected by the demography of the borough, speed of processing and whether RTI is being used to adjust claims in a timely manner. Elevate utilises RTI effectively and therefore benefit payments are more accurate and the correct level of overpayment is created.

Authority	Created (000)			
	2014/15	2015/16	Variation	Percentage
Waltham Forest	£9,003	£15,542	£6,539	73%
Barking and Dagenham	£6,593	£10,603	£4,010	61%
Tower Hamlets	£10,929	£17,386	£6,457	59%
Camden	£5,555	£8,561	£3,006	54%
Croydon	£13,368	£20,246	£6,878	51%
Greenwich	£5,029	£7,378	£2,349	47%

Lewisham	£9,024	£12,494	£3,470	38%
Bexley	£3,736	£5,042	£1,306	35%
Ealing	£10,746	£14,427	£3,681	34%
Brent	£14,537	£19,363	£4,826	33%
Hounslow	£7,909	£10,493	£2,584	33%
Sutton	£4,266	£5,482	£1,216	29%
Hackney	£12,466	£15,902	£3,436	28%
Hillingdon	£6,578	£8,230	£1,652	25%
Redbridge	£5,783	£7,216	£1,433	25%
Wandsworth	£11,549	£14,135	£2,586	22%
Southwark	£10,560	£12,727	£2,167	21%
Bromley	£5,683	£6,583	£900	16%
Merton	£5,279	£5,968	£689	13%
Richmond upon Thames	£2,974	£3,332	£358	12%
Kingston upon Thames	£3,588	£3,903	£315	9%
Westminster	£7,776	£8,075	£299	4%
Islington	£7,116	£7,312	£196	3%
Enfield	£9,309	£9,482	£173	2%
Hammersmith and Fulham	£7,827	£7,849	£22	0%
Lambeth	£13,352	£13,350	-£2	0%
Newham	£13,213	£12,811	-£402	-3%
Harrow	£5,714	£5,487	-£227	-4%
Haringey	£14,281	£13,293	-£988	-7%
City of London	£177	£154	-£23	-13%
Kensington and Chelsea	£4,986	£4,281	-£705	-14%
Barnet	£10,723	£8,855	-£1,868	-17%
Havering	£4,820	£3,909	-£911	-19%

Enforcement Agent (Bailiff) Performance

2.32 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.

2.33 Information on the performance of the enforcement agents is set out in the table below by type of debt for the whole 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	£4,941,845	8481	£476,718	10%
NNDR	£1,598,404.25	420	£396,435.70	24.80%
Commercial Rent	£47,242.87	14	£47,242.87	100.00%
General Income	£107,498.08	163	£49,136.91	45.71%

Debt Write-Offs: Quarter 4 2016/17

2.34 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 fourth quarter of 2016/17 totalled £65,656. The value and number of cases written off in each quarter of 2106/17 is provided in Appendix A. The total amount for the year was £452,888. The level of write-offs was lower in 2016/17 compared to earlier years as resource was focused on collection.

2.35 Ninety-one 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, or by number:

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

Absconded/not traced	Uneconomic to pursue	Debtor Insolvent	Deceased	Other reasons
£1,980.16	£15,766.68	£21,433.04	£1,109.93	£25,366.67
	24.01%	32.64%	1.69%	38.64%

Absconded/not traced	Uneconomic to pursue	Debtor Insolvent	Deceased	Other reasons
1	70	5	5	10
1.10%	76.92%	5.49%	5.49%	10.99%

(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).

2.36 The figures in Appendix B show the total write-offs for 2011/12, 2012/13, 2013/14, 2014/15, 2015/16 and 2016/17.

3. Options Appraisal

3.1 This is an information report.

4. Consultation

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

5 Financial Issues

Implications completed by: Stephen Hinds, Chief Accountant.

5.1 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.

- 5.2 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.
- 5.3 At the end of quarter 4, collection on Council Tax, and Rents were behind the profiled target. It is extremely important that performance improves in the future to prevent the Council from suffering a financial loss. All other areas exceed the targets and this should be congratulated.
- 5.4 Elevate deployed additional resources to improve collection on Council Tax and there is a service improvement plan in place to improve collection on Rent.
- 5.5 The level of write offs at the end of quarter four is £452,888. It is important that bad debts are written off promptly for budgeting purposes so the Council can maintain appropriate bad debt provision.
- 5.6 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.

6. Legal Issues

Implications completed by: Dr. Paul Field, Senior Corporate Governance Lawyer, Law & Governance

- 6.1 Monies owned 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.
- 6.2 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 order 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.
- 6.3 Whilst the use of 12 month Introductory Tenancies may have some impact in terms promoting prompt payment of rent, people can still fall behind and get into debt.
- 6.4 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.

- 6.5 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, 2015/16 and 2016/17.