

CABINET

17 September 2019

Title: Debt Management Performance and Write-Offs 2019/20 (Quarter 1)	
Report of the Cabinet Member for Finance, Growth, and Investment	
Open Report	For Information
Wards Affected: None	Key Decision: No
Report Author: Gill Hills, Head of Revenues	Contact Details: Tel: 0208 724 8615 E-mail: gill.hills@elevateeastlondon.co.uk
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	
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 first quarter of the financial year 2019/20. 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. The report demonstrates that performance is stable and continuing to improve year on year in terms of overall cash collection, though continuing to be impacted by welfare reform measures.	
Recommendation(s) The Cabinet is recommended to: (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 (ii) Note the debt write-offs for the first quarter 2019/20. (iii) Note the emerging impact of Universal Credit on collection levels, most notably Council Tax and Rents.	
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 first quarter of the 2019/20 municipal and financial year and covers the overall progress of each element of the service since April 2019. 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 Tables 1 and 2 below show the current collection of the key performance indicators and performance indicators for debt managed by Elevate.

2.2 Table 1: Collection Rate Performance – Quarter one 2019/20

Key Performance Indicators (KPI)	Annual target	Quarter 1 performance	Quarter 1 target	+ or - target	Financial variation
Council tax in year	95.70%	29.5%	29.8%	-0.3%	£220,882
General Income	96.20%	85.35%	84.20%	1.15%	£227,623
Rents	96.36%	23.46%	23.44%	0.02%	£20,231
Leasehold Income	98.60%	27.28%	30.48%	-3.2%	£170,373
Fairer contribution (homecare in year)	80.00%	68.64%	67.81%	0.83%	£1,312
NNDR in year	98.40%	31.2%	30.5%	0.7%	£434,691
Commercial Rent	98.75%	89.60%	90.00%	-0.4%	£4,559

2.3 Table 2: Collection Rate Performance – Quarter one 2019/20

Performance Indicator (PI)	Annual target	Quarter 1 performance	Quarter 1 target	+ or - target	Financial variation
Council Tax arrears	£2,475,000	£784,378	£864,639	£80,261	£80,261
Road Traffic enforcement (Enforcement Agents)	14%	16.8%	14%	2.8%	£49,909
Housing Benefit Overpayment	61.2%	58.2%	61.2%	-3%	£74,965

Reside	99.5%	99.7%	99.5%	0.2%	£127,446
Former Tenant Arrears	£206,000	£55,875	£51,500	£4,375	£4,375

2.4 Council Tax

2.4.1 Council Tax has increased by £5.3m overall (7.66%) whilst Council Tax Support has reduced by £548k (4.12%)

2.4.2 Council Tax Support now pays for 13.5% of Council Tax compared with 14.9% at the same time in 18/19, a reduction of 1.4%, this is the equivalent of £1.3m of additional Council Tax to be collected in 19/20.

2.4.3 The tables below show collection rates for those taxpayers currently in receipt of Council Tax Support (CTS) split between those claiming Universal Credit (UC) and those still on legacy benefits. It should be noted that this includes those of pensionable age.

		April	May	June
CTS legacy benefits	Net Collectable Debit	£4,271,580	£4,186,033	£4,130,958
	Paid	£593,394	£1,014,415	£1,292,262
	Percentage	13.9%	24.2%	31.3%

		April	May	June
CTS (UC)	Net Collectable Debit	£697,004	£785,081	£868,711
	Paid	£82,695	£161,773	£230,114
	Percentage	11.9%	20.6%	26.5%

2.4.4 As expected, the amount payable for those taxpayers not currently claiming UC is decreasing whilst those receiving UC is increasing. However, there is a 4.8% difference in the collection rate. It is estimated that the amount payable by those claiming UC will increase to £1.7m by the end of 19/20 with the gap in the collection rate continuing to widen to approximately 10%. This will be the equivalent of £170k uncollected within the year.

2.5 Council Tax arrears

2.5.1 Cases moving from legacy benefits to UC are resulting in CTS being cancelled and then reinstated, sometimes on numerous occasions throughout the year. This is causing instalments to be recalculated to start again in the following month(s).

2.5.2 As a result of this issue, debt recovery letters (reminders and summonses) that are issued for late or non-payment reduced in 2018/19 by 13k (17.5%). Any reductions in debt recovery action means that there is a delay in identifying customers that either require financial support or that must move on to other enforcement action i.e. Enforcement Agent. Therefore, arrears collection is lower in the first quarter of 2019/20 when compared with 2018/19.

2.5.3 It is estimated that taxpayers claiming UC will double in 2019/20 increasing the potential loss in arrears collection for future years.

2.5.4 Elevate continues to work closely with Community Solutions in order that taxpayers that require financial support are identified at the earliest possible opportunity. This early intervention will help, in part to mitigate the changing of instalments made due to UC and the resulting delays in recovery action.

2.6 General Income

2.6.1 Collection remains buoyant; however, testing in Oracle for the setting up of new entities (BD Service Delivery, BD Management services etc) is reducing resource available to concentrate on collection. This is currently being managed and carefully monitored.

2.7 Rent

2.7.1 Universal Credit continues to be the main issue facing collection rates. The table below shows the number of accounts still in receipt of Housing Benefit (HB) and whether they are in arrears and the same for those now in receipt of UC.

		April	May	June
Accounts on Housing Benefit	Number	7,568	7,436	7,398
	In arrears	2,472	2,801	1,811
	Percentage	33%	38%	24%
Accounts on UC	Number	1,705	1,833	2,000
	In arrears	1,132	1,283	1,331
	Percentage	66%	70%	67%

2.7.2 Although these numbers can fluctuate month on month, those tenants in receipt of UC are 2-3 times more likely to be in rent arrears than those still receiving Housing Benefit. The table below shows the current value of those arrears.

Arrears	April	May	June
Accounts on Housing Benefit	£751,319	£726,370	£673,209
Accounts on UC	£1,198,181	£1,297,760	£1,419,879

- 2.7.3 In the first quarter, arrears for tenants in receipt of HB reduced by an average of 5% per month, whilst those on UC increased by 9% per month.
- 2.7.4 At the current rate of increase, it is estimated that the arrears for those in receipt of UC will increase to £2.4m by the end of 19/20.
- 2.7.5 Close working between Elevate, Community Solutions and My Place is continuing with a focus on budgeting advice, tenancy sustainment and better use of data for earlier intervention

2.8 Leasehold

- 2.8.1 Leasehold debt has increased by £1.1m in 19/20 compared with 18/19. The increase in debt is being investigated to establish whether delays in changing liable parties in 18/19 is having a detrimental impact on collection in 19/20.

2.9 Fairer contributions (Homecare) – issues affecting collection

- 2.9.1 Collection rates remain above target in this area. There will be a review of the new charging policy at the end of the second quarter.

2.10 Business Rates – national non domestic rating (NNDR)

- 2.10.1 NNDR is significantly above target. However, this is due to fluctuations in collection last year upon which targets this year are based. Collection rates will begin to return to normal throughout the year and are expected to achieve target.

2.11 Commercial Rent

- 2.11.1 Commercial rent collection is slightly below target (£4k). There are no issues currently to report.

2.12 Road Traffic Enforcement

- 12.12.1 The Parking Service has significantly reduced delays in passing unpaid parking debts to the Enforcement Agents and this has improved collection rates in the first quarter.

- 2.12.2 Issues remain with more persistent offenders and Elevate and the Parking Service are working to reduce this issue.

2.13 Housing Benefit Overpayment

- 2.13.2 Although collection is currently behind target, it is expected that this will significantly improve throughout the year.

- 2.13.3 An emerging concern is again Universal Credit. Payments via attachment to benefit is a major source of income in this area and under legacy benefits was considered a high priority debt. However, for cases where the debtor is in receipt of UC, attachments for Housing Benefit Overpayment have been deprioritized by the DWP

and other debts now take priority. This is being closely monitored and any significant effect will be reported.

2.13 Reside

2.13.1 No issues to report, collection remains above target.

2.14 Former Tenant Arrears

2.14.1 No issues to report, collection remains above target.

2.15 Debts written off in quarter 1

Number	Under £2k	Over £2k	Over £10k	Total
Housing Benefits	31			31
General Income	8			8
Rents	2			2
Council Tax	60			60
NNDR	32			32
Total	133	0	0	133

Value	Under £2k	Over £2k	Over £10k	Total
Housing Benefits	£6,095			£6,095
General Income	£1,119			£1,119
Rents	£1,925			£1,925
Council Tax	£55,347			£55,347
NNDR	£1,794			£1,794
Total	£66,280	£0	£0	£66,280

2.16 Reasons for write offs in quarter 1

Value	Absconded/not traced	Uneconomic to pursue	Debtor Insolvent	Deceased	Other reasons	Total
Housing Benefits		£2,785	£2,138	£1,172		£6,095
General Income		£1,119				£1,119
Rents					£1,925	£1,925
Council Tax	£486		£54,723		£138	£55,347
NNDR		£288	£1,505			£1,794
Total	£486	£4,193	£58,366	£1,172	£2,063	£66,280

Number	Absconded/not traced	Uneconomic to pursue	Debtor Insolvent	Deceased	Other reasons	Total
Housing Benefits		25	3	3		31
General Income		8				8
Rents					2	2
Council Tax	1		58		1	60
NNDR		9	23			32
Total	1	42	84	3	3	133

2.16.1 "Other reasons" include the following categories:

- Insolvency
- Remitted by court
- Debtor outside UK
- Prison sentence served in respect of debt
- Benefit overpayment – unrecoverable in accordance with Housing Benefit General regulations 1987
- The court refuses to make an order in respect of the debt
- Statute barred due to age of debt
- Small balance
- Negotiated settlement of part of debt
- Vulnerable
- In prison

2.17 Arrears

2.17.1 The table below shows the total unpaid debt for all previous years at the end of 2018/19 and at the end of quarter 1, with the exception of rent where arrears are defined as being any debt more than one week old. This shows debts that have not been discharged within the year in which they were charged. Although, every effort is made to ensure payment is secured, many debts are still being paid in later years or remain uncollected. Debts shown span from the year 1999/2000 to 2018/2019.

2.17.3 All debts are pursued regardless of their age. Many customers have made payment agreements which they continue to pay often long after the debt originally occurred, and this includes payments made to Enforcement Agents where they have agreed to clear arrears over an extended period of time. Enforcement action is also taken where the new address of a debtor who has moved from the borough is found.

99/00 - 18/19	Year end	Quarter 1
Council Tax	£25,011,376	£24,109,525
NNDR	£8,117,641	£7,042,028
Rent	£3,211,840	£3,554,385
Leaseholders	£407,178	£289,785
General Income	£4,507,818	£4,235,462
Total	£41,255,854	£39,231,185

3. Financial Implications

Implications completed by Thomas Mulloy, Chief Accountant

- 3.1 Collecting all debts due is critical to the Council's ability to fund Council and maintain the Council's cash flow. 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 mainly focus on the areas where the targets are not being achieved to discuss ways to improve prompt collection of Council revenues.
- 3.3 At the end of quarter 1, Elevate has achieved many but not all of its targets. Performance underachieved in some key collection areas. i.e. Council Tax and HB Overpayments
- 3.4 Performance on Council Tax for quarter 1 was below the target by 0.3%, which is equivalent to a cash shortfall of £220k, Leasehold collection was down 3.2% which is the equivalent of £170k.
- 3.5 The importance of prompt collection is that debts become more difficult to collect as the debt ages and there is a much greater risk of not being able to collect older debts. The Council maintains a provision for Bad Debts from which the cost of uncollectable debts relating to 2017/18 and earlier years are charged, the preventing any impact upon the Council's current revenue income. A periodical review is carried out required to ensure the adequacy of the Council's Bad Debt Provisions adjustments to the provisions are met from the Council's revenue budget and reduce the funds available for other Council expenditure.
- 3.6 The level of write offs for the year as at the end of quarter 1 total £66,280. It is important that bad debts are written off promptly so that the Council can maintain the appropriate level of bad debt provision. The approved write offs can be met from the Council's current Bad Debt Provision

4. Legal Issues

Implications completed by Dr. 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 should 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 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.
- 4.4 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** – Total debts written off in 2011/12, 2012/13, 2013/14, 2014/15, 2015/16, 2016/17, 2017/18 and 2018/19