

CABINET

22 September 2020

Title: Debt Management Performance and Write-Offs 2020/21 (Quarter 1)	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	For Information
Wards Affected: None	Key Decision: No
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Accountable Strategic Leadership 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 first quarter of the financial year 2020/21. 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.</p>	
Recommendation(s) <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(i) Note the performance of the debt management function carried out by the Revenues and Benefits service, including the performance of enforcement agents;(ii) Note the emerging impact of Universal Credit on collection levels and particularly Council Tax and rents; and(iii) Note the effect of Covid-19 on collection levels across various revenue streams.	
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 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 2020/21 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.
- 1.3 The Revenues service is responsible for the collection of Council Tax, Business Rates, Housing Benefit Overpayments, General Income, Rents and for the monitoring of cases sent to Enforcement Agents for unpaid parking debts

2. Performance

- 2.1 The Key Performance indicators are shown below with details of collection rates. Further performance indicators are shown in table 12.

Council Tax

- 2.2 The table below shows the Net Collectable Debit (NCD) for Council Tax including the percentage of tax collected within the year over the past two years.

Table 1	2019/20	2020/21
NCD (000)	£81,687	£85,058
Paid	£24,121	£23,465
Percentage collected	29.5%	27.6%

- 2.3 The amount being charged in Council tax this year has increased by £3.3m. Whilst the amount collected has reduced by £656k, when considering the increase in the charge, the actual loss in collection is £1.6m

Universal Credit (UC) remains one of the biggest challenges faced by the Revenues Service and delays in payment of UC are resulting in a knock-on delay in payment of Council Tax.

However, Covid-19 has now added to this challenge with 14k more residents claiming Universal Credit at the end of June compared with the end of February (*Insight Hub report 16/07/2020*).

Delays in processing these new claims and the usual 4 to 5 weeks wait for payment that claimants experience normally, means that this figure is likely to be much higher. Considering the increase in employment and general economic downturn, collection rates are not likely to recover in the short term.

- 2.4 The number of working age residents now claiming Council tax Support (CTS) has increased significantly since the beginning of the crisis.

Table 2	2020/21
November 2019	10,226
December 2019	10,224
January 2020	10,250
February 2020	10,297
March 2020	10,590
April 2020	10,961
May 2020	11,117
June 2020	11,346

- 2.5 Table 2 above shows the number of Council Taxpayers in receipt of CTS. Since November 2019, this number has increased by 11%. Given the number of residents now claiming Universal Credit this figure is likely to continue to rise at a similar rate. Although there is no conclusive data, it can be assumed that the increase includes those residents on low income that have now lost their jobs as well as those who have not claimed support before.
- 2.6 At the start of the lockdown period all recovery action was suspended. Since then 13,000 reminders have been sent to taxpayers. These reminders have both served to prompt payment and to urge contact from the taxpayer where they are unable to do so.
- 2.7 The Court service has been suspended and courts remain closed for all cases, with the exception of those deemed priority, i.e. defendants in or at risk of prison. This means that it is not possible to obtain a liability order which allows further action, i.e. Enforcement Agents. More recently the Court Service has started discussions about holding hearings via video link in Council buildings. The Magistrates' Courts are not equipped to deal with social distancing and so this is seen as potential solution. The feasibility of this proposal is being investigated.
- 2.8 Action by Enforcement Agents has been suspended since Lockdown. The financial effect of the pandemic coupled with the cessation of enforcement action has had a detrimental effect on arrears collection.

Table 3	2019/20	2020/21	Variation
Council Tax arrears	748,378	£422,239	£362,139

- 2.9 Since many residents with Council Tax arrears will also be struggling to pay their current year charge, now made worse in many cases due to the pandemic, it is estimated that 50% (£1m) of the expected income will be lost or significantly delayed.
- 2.10 The Government introduced a scheme at the start of the pandemic which reduces the Council Tax of any working age recipient of Council Tax Support (CTS) by £150. This has required an enhancement to the Council Tax system (Academy). This has taken the software provider a number of months to develop and the £150 will be applied to the accounts in early August and new bills will be issued.
- 2.11 The service has maintained a consistent approach to debt collection throughout this unique situation. Residents have been urged to pay if they can but, in many cases,

instalments have been recalculated to start later in the year. For many residents, payment of Council Tax is difficult and delaying payment further will undoubtedly create a situation where they will not be able to easily catch back up.

2.12 The Revenues services recognises that a new approach to debt collection is required and that enforcement action requires a more targeted approach. Work has begun to build a data led approach considering the payment history of each case and whether they have been in contact with the Council to seek support. Whilst this is a complex undertaking and a significant departure from the well-established approach to collection, its benefits are clear and will allow for a more proactive and intelligence led method of collection.

2.13 **Successes** – A consistent and supportive approach has been taken during the pandemic.

2.14 **Concerns** – The long terms effects of non-payment increasing arrears. The increase in unemployment or low pay during the financial crisis.

3. Rent Collection

3.1 The Covid-19 pandemic has had a detrimental effect upon rent collection. The table below shows the collection rates at the end of quarter 1 compared with 19/20. Whilst this shows a reduction of 0.94% it should be noted that comparisons at month end are difficult. This is because 2019/20 had 53 rent weeks and therefore 2020/21 collection started later than the previous year. Table 4 compares collection with last year and table 5 shows collection against the target.

Table 4	Rent collection			
	2019/20	2020/21	Variation	Loss
Percentage collected	23.46%	22.52%	-0.94%	£723,537

Table 5	Rent collection			
	2020/21	target	Variation	Loss
Percentage collected	22.52%	24.18%	-1.66%	£1,702,155

3.2 All enforcement action has stopped and a similar approach as Council Tax has been adopted. In June Capita Housing was upgraded to Open Housing and this has resulted in a delay in some reports. Therefore, exact figures regarding Universal Credit (UC) are not yet available. The table below shows numbers of tenants claiming Housing Benefits or Universal Credit at the end of May.

Table 6	Number	In arrears	Percentage in arrears
Residents in receipt of Housing Benefit	6,640	1,729	26.0%
Residents in receipt of UC	3,514	2,129	60.6%

Table 7	Value of arrears	Average arrears
Residents in receipt of Housing Benefit	£603,332	£348.95
Residents in receipt of UC	£2,411,558	£1,132.72

- 3.3 The number of tenants on legacy Housing Benefit has decreased by 1.5% (98) since the end of 19/20 and has been decreasing as expected since the introduction of UC. However, the number of those tenants in arrears has increased by 10% (250), with average arrears increasing by £23 per tenant.
- 3.4 The number of tenants claiming Universal Credit has increased by 17.6% (526) since the end of 19/20 with arrears increasing by £461k and average arrears increasing by £46.
- 3.5 The well documented problems related to UC continue to compound the financial problems faced by tenants. Since tenants still have to wait 5 weeks for a UC payment, arrears continue to increase, and tenants are often not a position to pay. Many tenants are unable to return to work and are finding it increasingly difficult to cope.
- 3.6 The Rents team continues to offer support to tenants who are clearly suffering from financial difficulties, whilst maintaining collection for those less effected. Continued close working with Community Solutions means that tenants are given the opportunity to discuss budgeting and to ensure that their entitlement to benefit is maximised.
- 3.7 The Government has offered no assistance to tenants in financial difficulty and whilst many will benefit from the £150 reduction in their Council Tax, it is a relatively small contribution given that average rent arrears for those claiming UC is over £1,100.
- 3.8 **Successes** – Swift action has been taken to support tenants.
- 3.9 **Concerns** – The recession will result in a downturn in employment and arrears will be beyond out tenant’s means to pay back.

4. Leasehold collection

- 4.1 The table below shows the collection rate compared with the target for quarter 1. This target shows the position that collection should be at this point in the year.

Table 8	Leasehold – Quarter 1			
	2020/21	Target	Variation	Loss
Percentage collected	23.82%	30.20%	-6.38%	£289,953

- 4.2 Leaseholders are experiencing similar financial difficulties to Council Tax and Rent payers.

- 4.3 All enforcement action has been ceased and the team have been contacting customers to discuss their financial position.
- 4.4 Customer are being allowed more time to pay where they are affected by Covid.
- 4.5 **Successes** – Swift action has been taken to support leaseholders.
- 4.6 **Concerns** – The recession will result in a downturn in employment and arrears will be beyond out leaseholder means to pay back.

5. General Income collection

- 5.1 The table below shows the collection rate compared with the target for quarter 1. This target shows the position that collection should be at this point in the year.

Table 9	General Income – Quarter 1			
	2020/21	Target	Variation	Loss
Percentage collected	62.02%	84.20%	-22.18%	£6,033,852

- 5.2 As General income consists of 22 different lines of debt there can be fluctuations in collection rates. Therefore, collection can be affected by changes or challenges faced by the departments issuing the charges. Although collection is 22% behind target this is due to some delays in larger payments. These payments are expected to be made and so collection rates are actually closer to 6-7% below target.
- 5.3 **Successes** – Swift action has been taken to support payers and issuing departments.
- 5.4 **Concerns** – Collection rates will suffer in certain areas due to the pandemic.

6. Business Rates

- 6.1 The table below shows the collection rate compared with the target for quarter 1. This target shows the position that collection should be at this point in the year.

Table 10	Business Rates – Quarter 1			
	2020/21	Target	Variation	Loss
Percentage collected	27.1%	30.5%	-3.4%	£1,601,109

- 6.2 In line with the Government's new relief schemes, a total of £18m has been given in relief. A further £23.3m in cash grants have been given to Business Rates customers.
- 6.3 The relief and grant schemes are aimed primarily at retail, hospitality and leisure sectors and exclude the industrial sector. Therefore, companies supplying one of the aforementioned sectors will have seen a significant drop in business but have not received a reduction in their Business Rates or a grant.

- 6.4 Where it is clear that a business is unable to pay, their instalments are being changed to start later in the year. This in part will temporarily relieve some of the financial burden on the business, but obviously will have not affect upon rental costs or other running costs the business may need to pay.
- 6.5 It is uncertain how many businesses will return to trading or how long they will be able to continue. The Government had intended on a revaluation of all commercial properties in 2021 which has now been postponed to the following year. This will help to keep Business rates at their current level.
- 6.6 **Successes** – 1,900 grants issued.
- 6.7 **Concerns** – Business Rates collection steadily dropping. No sign of recovery.

7. Commercial Rent

7.1 The table below shows collection rate for quarter 1.

Table 11	Commercial rent – Quarter 1			
	2020/21	Target	Variation	Loss
Percentage collected	47.54%	90%	-42.46%	£747,534

- 7.2 Commercial Rent collection has reduced due to the pandemic. This is not unexpected and is in line with Business Rates.
- 7.3 Businesses that are making contact are being allowed more time to pay if they are in financial difficulty.
- 7.4 As with Business Rates, it is uncertain how many of these businesses will return to trading and if they do how long they will continue.

8. Performance

8.1 Performance against targets is shown below:

Table 12	Service level	Target	Variation from target
Council tax in year collection	27.6%	29.8%	-2.2%
General Income collection in year	62.02%	84.20%	-22.18%
Rents	22.52%	24.18%	-1.66%
Leasehold Income collection %	23.82%	30.20%	-6.38%
Fairer contribution (homecare in year)	33.68%	67.81%	-34.13%
NNDR in year collection %	27.1%	30.5%	-3.4%
Commercial Rent %	47.54%	90.00%	-42.46%
Council Tax arrears £	£422,239	£864,639	-£442,000
Former Tenant arrears	£24,758	£51,500	-£26,742
Road Traffic Enforcement %	12.3%	14.0%	-1.7%
HB overpayment %	102.8%	61.2%	41.65%
Reside	99.4%	99.5%	-0.08%

9. Arrears

- 9.1 The tables below show arrears for quarter 1. The definition of arrears is shown in the description. Whilst Council Tax, Business Rates and Leasehold show unpaid charges raised before the 31 March 2020, Housing Benefit Overpayments and Rent show unpaid debts up the end of quarter 1. This is because these debts are not annually charges.
- 9.2 The definition of arrears is different for each of the revenue streams. The table below shows the amount of unpaid debt at the end of the year compared with the same time in 2018/19.

Table 13	2019/20 Year end (000)	2020/21 Q1 (000)	Variation (000)	Description
Council Tax	£25,792	£25,114	-£678	Debts raised and unpaid which are not for the current year
Housing Benefit overpayments	£27,020	£25,692	-£1,328	Currently outstanding for all years
General Income	£8,156	£5,703	£2,453	
NNDR	£8,031	£8,276	£245	Debts raised and unpaid which are not for the current year
Leasehold	£570	£495	-£75	Debts raised and unpaid which are not for the current year
Rent	£3,757	£5,221	£1,464	Rent that has not been paid for 1 week or longer

10. Council Tax Arrears

- 10.1 Council Tax arrears are defined as any debt that remains unpaid after the end of the financial year in which it was raised.
- 10.2 The recovery of Council Tax continues after the year has ended in normal circumstances. However, all enforcement action has been suspended. Although Council Tax arrears have reduced by £678k in the first quarter this is approximately 50% less than expected.

11. Housing Benefit Overpayments Arrears

- 11.1 Where a housing benefit overpayment has been created the debt is immediately pursued. The table below shows the current debt recovery status of those overpayments.
- 11.2 Enforcement action has been suspended during the Covid-19 pandemic.
- 11.3 The creation of Housing Benefit Overpayment has been decreasing steadily since the introduction of Universal Credit. Creation has further been reduced since the

pandemic. Overpayments are often created due to a change in circumstances, i.e. increase in wages. Since wages are far less likely to be increased this year, overpayments have reduced. The table below shows overpayment creation over course of last year and quarter 1 this year.

Table 14

Quarter	Raised (000)
Quarter 1 19/20	£2,651
Quarter 2 19/20	£1,841
Quarter 3 19/20	£1,632
Quarter 4 19/20	£1,303
Quarter 1 20/21	£1,111

11.4 As many debtors have been or are still in receipt of benefit, the process of debt collection can be relatively slow with small payments being made towards often large debts.

12. NNDR

12.1 Business Rates arrears can fluctuate considerably. Appeals against rateable values are sometimes made many years after the year of the charge. This means that debts can sometimes be increased or decreased by hundreds of thousands of pounds. Enforcement action has been suspended during the pandemic and so collection of arrears is significantly reduced.

13. General Income (including Homecare) arrears

13.1 All General Income is recorded using Oracle which has no debt management system. It is therefore not possible to determine where each debt is within the debt recovery process.

14. Rent arrears

14.1 The table below shows the breakdown of rent arrears. Rent arrears are designated as any tenancy that is one week or more in arrears.

Table 15

Arrears range	2019/20	2020/21 (Q1)	Variation
Less than £250	£287,049	£218,052	£68,997
£250 to £500	£316,434	£322,886	£16,452
£500 to £1,000	£423,694	£607,562	£183,868
£1,000 to £3,000	£1,092,964	£1,704,051	£611,087
£3,000 to £5,000	£636,130	£942,990	£306,860
Over £5,000	£522,854	£665,052	£142,198
Total	£3,279,125	£4,470,594	£1,191,469

- 14.2 Rents arrears are classified any debt more than 1 week old. As can be seen in the table above, there is a worrying increase in arrears and most notably those above £1,000. On average a tenant will pay £1,200 per quarter, the increase in the £1,000 to £3,000 bracket suggests that some tenants will not have been able to pay their rent since the start of the year. Those already in arrears at the end of the year will also have seen an increase.
- 14.3 Assuming that there is no significant improvement in the economy and at the current rate of increase, it is not inconceivable that arrears will increase by a further £3m by the end of 20/21.
- 14.4 The team continue to contact tenants to discuss their financial situation and encourage payment where it is possible. Close working with Community Solutions to ensure sufficient support is available is also continuing.

15. Financial Implications

Implications completed by Sandra Pillinger Group Accountant

- 15.1 Other than Housing Benefit overpayment recovery, all the indicators show that debt collection is below target. Covid is having an impact across all categories of debt as reduced incomes impact on ability to pay. More residents are in receipt of Universal Credit and are continuing to experience delays in processing of claims. The courts service has been suspended as has action by enforcement agents.
- 15.2 The Revenues team has been working closely with Community Solutions to identify residents in financial difficulty and to provide support to assist in tackling financial problems and managing debt. In addition, a new data led approach is being taken which is more targeted.
- 15.3 Collecting all debts due is critical to funding the Council and maintaining cashflow. Monthly performance monitoring meetings with Elevate focus on where the targets are not being achieved to improve prompt collection of Council revenues.
- 15.4 The Council maintains a bad debt provision which is periodically reviewed. Increases to the provision are met from the Council's revenue budget and reduce the funds available for other Council expenditure.

16. Legal Implications

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

- 16.1 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.
- 16.2 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.

- 16.3 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. The decision to write off debts has been delegated to Chief Officers who must have regard to the Financial Rules.
- 16.4 As observed the Covid 19 pandemic is having a detrimental effect on debt management with a combination of severe pressures on households and businesses due to the sudden reduction of economic activity compounded by the future uncertainty of when an effective vaccine will become widely available. The picture is that it is unlikely to be before spring 2021 at the earliest that any recovery will begin.
- 16.5 Furthermore the Government has provided in the Coronavirus Act 2021 in schedule 29 that there will be protection from eviction for residential tenancies. This includes Housing Act 1985 public sector tenancies and introductory tenancies. Notice of possession will need to be given for three months ahead. The Secretary of State has the power to extend the requirement. In addition, a practice direction has been issued by which court action which will lead to possession has been stayed until the 23 August. At time of writing, we consider this is likely to be extended and the Covid 19 special regime for protection from eviction unlikely to change for residential tenancies going into the winter months.
- 16.6 The inevitable debt management implications are that with legal enforcement options limited because of the national Covid 19 crisis, the short term debts and more particular irrecoverable debts are anticipated to increase despite the very best efforts of all the teams involved.

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

List of appendices: None