

CABINET

13 December 2022

Title: Debt Management Performance 2022/23 (Quarter 2)	
Report of the Cabinet Member for Finance, Growth and Core Services	
Open Report	For Decision
Wards Affected: None	Key Decision: No
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Accountable Director: Stephen McGinnes, Director of Support and Collections	
Accountable Strategic Leadership Director: Fiona Taylor, Acting Chief Executive	
Summary This report sets out the performance of the Revenues service in the collection of revenue and debt management for the second quarter of the financial year 2022/23. The report demonstrates that performance is becoming increasingly challenging as a result of the cost-of-living crisis.	
Recommendation(s) The Cabinet is recommended to: (i) Note the performance of the debt management function carried out by the Council's Revenues service, including the pressure on collection rates as a result of the cost-of-living crisis; and (ii) Note the change in debt recovery processes for the collection of Council Tax to assist residents in the current climate, as described in paragraph 2.5 of the report.	
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. This report sets out performance for the second quarter of the 2022/23 financial year and covers the overall progress of each service element since April 2022.

1.2. 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. Council Tax

2.1. Council tax collection is 0.5% behind last year, this is the equivalent of £500k in delayed payment. Arrears collection is £264k behind last year.

2.2. It should be noted that current year collection at that at the end of quarter 1 was 1.3% behind. However, as per Government guidance any resident that failed to claim their £150 energy rebate has had that money credited to their account which has improved the collection rate.

2.3. All £150 energy rebates have now been paid or credited to council tax accounts. With 63k payments made and 10k accounts credited with the £150, the total amount of support given totals £10.9m. This project was successfully completed at the end of quarter 2, but it has put a significant strain on the service, and this has contributed to a reduction in collection rates in the first two quarters of the year.

2.4. The cost-of-living crisis continues to place an unprecedented level of financial pressure upon our residents. The level of financial support given to residents during this crisis is considerably less than that during the Covid-19 pandemic and there is no additional support for business.

2.5. Residents are being given more time to pay their Council Tax, and reminders are being sent at the end of each month rather than shortly after each missed instalment. Council tax can be paid by instalments on the 1st, 8th, 15th or 22nd of the month and so this change allows the resident more time to pay. Previously reminders were sent 8 days after a missed instalment.

2.6. This adjustment has reduced the number of reminders issued by 3.6k and summonses by 5.7k, which is a reduction of 31% and 17% respectively. This has reduced summons costs passed on to residents by a total of £452k.

2.7. The council tax discretionary relief fund was increased this year from £50k to £250k. This has allowed for far greater flexibility when granting relief. The table below shows the amount of relief awarded as well as reductions to debts as a result of discounts and exemptions not previously applied for, and enforcement costs that have been removed.

Financial year	Total relief	Discounts & exemptions awarded	Court costs removed	Enforcement agent costs removed	Total
2021/22	£58,352	£20,988	£39,055	£10,667	£129,062
2022/23 (October)	£83,768	£19,603	£32,819	£13,902	£150,092
Difference	£25,416	-£1,385	-£6,236	£3,235	£21,030

2.8. As can be seen, the total amount of relief and reductions in debt at the end of quarter 2 exceeds that's given in the whole of 2021/22. In addition, the average award has increased by 30%, see table below.

Financial year	Number granted	Relief granted	Average
2019/20	53	£57,784	£1,090
2020/21	60	£61,330	£1,022
2021/22	56	£58,296	£1,041
2022/23 (September)	62	£83,768	£1,351

- 2.9. Reasons for granting relief vary and include domestic violence, terminal illness, abuse etc, but of the 62 cases awarded so far only 14 do not cite mental health issues as one of the reasons. The remaining 48 cases all cite mental health as a contributing factor and 29 (47%) cite mental health alone as the reason for making the application.
- 2.10. Residents that have still failed to pay or make contact are being sent through to Becontree Collection Service (BCS) for collection. BCS continues to operate ethically in allowing residents the opportunity to pay over extended periods of time. Previously, private external companies were used to perform this function minimising opportunities to take different approaches to collection.
- 2.11. Residents are still frequently being referred to the Homes and Money Hub where they receive the following essential support:
- Budgeting assistance (income and expenditure)
 - Training advice
 - Referral to the Job shop
 - Maximisation of benefit entitlement
 - Tenancy sustainment

3. Business Rates

- 3.1. Business rates collection is 5.7% above last year for the same period.
- 3.2. A gradual reduction in collection rates in the second quarter is being closely monitored. Businesses are being contacted whenever possible to discuss their financial situation and ensure that payment plans do not jeopardise their continued trading.

4. Rents

- 4.1. Rent collection is 0.7% behind 2021/22 at the end of the quarter.
- 4.2. Rent arrears have increased due to the pandemic and subsequent cost of living crisis. Collection of rent in the current financial climate continues to be challenging.
- 4.3. Residents continue to migrate from housing benefit to universal credit (UC). This delays payment of rent by 4 to 6 weeks whilst the tenant awaits their first payment.
- 4.4. The results of migration coupled with the increase in rent this year can be seen below. Since rent is charged weekly these figures will increase. By year end the housing benefit will have reduced by £1.6m with an additional £2m charged in rent.

	QUARTER 1	QUARTER 2
Rent increased	£547,871	£1,050,260
HB reduced	£522,416	£888,153
Additional to collect	£1,070,287	£1,938,413
Additional rent paid	£692,010	£1,277,839

- 4.5. Since there is a delay of 4 to 6 weeks before the applicant receives their UC collection rate comparisons with previous years are problematic as the number of tenants fluctuates.
- 4.6. A considerable amount of work has been carried out to identify trends and patterns in payments made by our tenants. In this way changes in these trends can be used to identify those that have transitioned to UC or are potentially experiencing hardship. In such cases tenants are being contacted and offered support.
- 4.7. Trend analysis is being refined to become increasingly accurate and to incorporate other debts, e.g. council tax, allowing for targeted intervention at the earliest possible point.

5. Reside

- 5.1. Reside collection rates are 1.1% lower than in 20/21.
- 5.2. Reside tenants have been equally affected by the pandemic and cost of living crisis. The team are working with tenants to help through the financial crisis and ensure that payment is received.
- 5.3. As with all revenue streams, some residents fell into arrears during the pandemic. The cost-of-living crisis has therefore made it difficult for them to recover. The team are dedicated to assisting these residents and to agree payment plans that are affordable and will ensure that debts are cleared.

6. General Income

- 6.1. General income is 31% behind the same time last year. However, there has been a delay in payment from schools. Occasional delays occur in school payments, particularly during the summer holidays, and this is no cause for concern. Excluding, school payments, collection rates are exceeding 21/22.
- 6.2. There is a further £2.9m unpaid by BD groups, most notably BDMS and BDTP with outstanding invoices totalling £1.9m and £950k respectively. Discussions are ongoing to progress the settlement of these invoices and implement more robust arrangements to avoid similar delays by BD groups in settling invoices in the future.

7. Adult social care

- 7.1. These charges are mainly for homecare, residential and nursing care and currently the collection rate is 10.3% behind last year.
- 7.2. The number of invoices issued compared with last year has increased by 4k with an additional increase in charges of £4.1m.

- 7.3. Whilst payments have increased this year by £1.2m, the unprecedented increase in charges and invoices has meant that collection rates have reduced when compared with 2021/22.
- 7.4. This is one of the more complex charges to collect reliant upon social services, the financial assessment team as well as the collection team. The collection team is undergoing a database cleansing exercise, this is required since the previously used Oracle system was not appropriate for debt recovery. The new E5 system is a significant improvement and allows for recovery action to be taken and monitored properly. The collection of adult social care will be moved to the Financial Assessment Team once the database has been cleansed.
- 7.5. The collection service receives many queries about the charges which in many cases they are unable to answer. Moving the collection of these charges to the Financial Assessment Team will reduce delays in responding to these queries and therefore improve the accuracy of billing and collection rates.

8. Housing Benefit Overpayments

- 8.1. Housing Benefit Overpayment collection is 0.3% above 2021/22 for the same period, this is the equivalent of £77k.
- 8.2. Alongside normal activity, the team is focusing on a review of arrears to remove or collect older debts.

9. Collection rates

- 9.1. The table below shows collection rates for quarter 2:

Collection Area	2022/23	2021/22	Variation
Council Tax current year	55%	55.5%	-0.5%
Council Tax arrears	£1,309,515	£1,573,573	£-264,058
Rents	47.9%	48.6%	-0.7%
Business Rates	57.5%	51.8%	+5.7%
General Income	43.9%	74.6%	-30.7%
Leasehold	53.8%	61.9%	-8.1%
Commercial rent	51.5%	87.9%	-14.5%
Care	36.7%	47%	-10.3%
Housing Benefit Overpayment	7.3%	7%	+0.3%
Reside	90.8%	94.9%	-1.1%

10. Financial Implications

Implications completed by: Nurul Alom, Finance Manager

- 10.1. Compared to the same period last year, collection rates are lower across most categories of debt. This is due to the impact of the Cost-of-living crisis and transition of residents from Housing Benefit to Universal Credit. To try and alleviate some of this additional pressure, adjustments have been made to the process of debt

recovery allowing residents a longer period of time to pay, given their reduced financial circumstances.

- 10.2. The largest variation is in General Income of 31% which is mainly due to delay in payments from Schools. This is not a concern as occasional delays occur, particularly during the summer holidays.
- 10.3. There is a substantial amount outstanding from BD groups which is a cause for concern as no payment has been received despite contact being made on several occasions.
- 10.4. The Revenues team has been working closely with the wider 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. It is anticipated that the introduction of community banking in the borough will accelerate the wider support given to residents in financial difficulty and managing debt.
- 10.5. Collecting all debts due is critical to funding the Council and maintaining cashflow. Monthly performance monitoring meetings with the Strategic Director of Community Solutions focus on where the targets are not being achieved to improve prompt collection of Council revenues.
- 10.6. 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.
- 10.7. The arrears project will review historic debt and where these are recoverable the necessary action will be taken. Where debt is no longer recoverable, they will be written off. Vast majority of these debts are more than three years old, and a 100% provision has been allowed for these debts.

11. Legal Implications

Implications completed by: Dr. Paul Feild, Principal Standard & Governance Lawyer

- 11.1. 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.
- 11.2. 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 often suspend the possession order on condition the tenant contributes to their arrears.

- 11.3. 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.
- 11.4. As observed the Covid 19 pandemic is having a detrimental effect on debt management with a combination of severe pressures on households and businesses. Even though the vaccination programme has contributed to a recovery it is anticipated that it will not be until well into autumn before economic normality is approached and many businesses and activities may not return in the same form.
- 11.5. The inevitable debt management implications are that with the legal enforcement options being limited by Government measures preventing the resort to eviction as a means to enforcement of debt for all of the financial year 2020 to 2021 because of the national Covid 19 crisis, the short-term debts and more particularly irrecoverable debts inevitably increased despite the very best efforts of all the teams involved. Now this last option has been restored the message that debts will be pursued in due course is being pressed home however such action is tempered with targeted efforts to help citizens and businesses successfully manage their debts.

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

List of appendices: None