

CABINET

26 June 2012

Title: Debt Management Performance and Write-Offs 2011/12 (Quarter 4)	
Report of the Cabinet Member for Finance and Education	
Open	For Information
Wards Affected: None	Key Decision: No
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Accountable Divisional Director: n/a	
Accountable Director: Tracie Evans, Corporate Director of Finance and Resources	
Summary: This report sets out the performance of the Council's partner, Elevate East London, in carrying out the debt management function on behalf of the Council and as this report covers the fourth quarter of the year it provides the outturn performance for the year and details the debts that have been written off. The report for the first quarter was considered by Cabinet on 20 September 2011, for the second quarter on 14 December 2011 and the third on 21 April 2012. Debt is written off in accordance with the policy approved by Cabinet on 18 October 2011.	
Recommendation(s) Cabinet is asked to: (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 bailiffs; and (ii) note the debt write-offs for the fourth quarter of 2011/12 and that a number of these debts will be publicised in accordance with the policy agreed by Minute 69 (6 November 2007) (the debts to be published are those with the highest value for which publication is not prevented by the criteria set out in paragraph 2.53).	
Reason Assisting in the Council's Policy House aim of ensuring a well run organisation delivering its statutory duties in the most practical and cost-effective way. It will ensure good financial practice and adherence to the Council's Financial Rules to report on debt management performance and total debt write-off each quarter.	

1. Introduction and Background

- 1.1 The Council's Revenues, Benefits, General Income and Rents Service is operated by 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.
- 1.2 This report sets out the performance for 2011/12 and covers the overall progress of each element of the service for the year that ended on 31 March 2012. In addition it summarises the debts that have been agreed for write off in accordance with the Council's Financial Rules. Write offs in the fourth quarter have been actioned in accordance with the Council's debt management policy agreed on 18 October 2011.

2. Proposal and Issues

- 2.1 Set out below is the performance for 2011-12 and highlights of the improvements made by Elevate for each of the functions of the Revenues Service during the year.

Table 1: Collection Rate Performance - 2011/12

Revenue	KPI Profiled Target	Actual	Variance	Amount Collected	Yearly Amount Due
Council Tax	92.9%	94.1%	+1.2%	£48.5m	£51.5m
NDR	96.0%	96.4%	+0.4%	£51.4m	£53.4m
Rents	96.75%	97.72%	+0.97%	£92.8m	£95.0m
Leaseholder	71.65%	84.84%	+13.19%	£3.3m	£3.9m

Council Tax performance and service improvements

- 2.2 Council Tax collection at the end of the year finished 1.2% above the previous year's performance. The percentage collection was 94.1%, equating to £48.5m collected of the £51.5m Council Tax due. In Elevate's first year this represents the highest collection rate achieved in the last 10 years despite the continuing tough times being experienced by residents.
- 2.3 A breakdown of the outstanding council tax debt as at 31 March 2012 for Council Tax, year by year is set out below:

Year	Arrears
1999/00	£39,946
2000/01	£43,043
2001/02	£72,251
2002/03	£150,994
2003/04	£271,575
2004/05	£496,355
2005/06	£745,215
2006/07	£1,257,027
2007/08	£1,837,434

2008/09	£2,155,604
2009/10	£2,547,256
2010/11	£3,424,516

2.4 The main improvements implemented by Elevate in 2011-12 were:

- Elevate's new payment arrangement procedure has resulted in an increase in direct debit payers by 5.4% from 25,067 at the beginning of the year to 26,422. This new procedure allows for payment agreements to be made with the customer where a summons has been issued for non payment. For an agreement to be confirmed the customer must agree to pay by direct debit, pay a percentage of the debt immediately and supply their employment details.
- Summons surgeries established by Elevate at the beginning of the year continue to be successful with customers seen at both Barking Learning Centre (BLC) and Dagenham Library resolving issues before their hearings as well as getting payments.
- An additional 9 customer service staff and 3 team leaders were given council tax training in December and are now being utilised by B&D Direct to reduce the need for back office cover.
- Resolution of queries at first point of contact was significantly improved as a result of training given to contact centre and One Stop Shop staff. This dramatically improved the customer experience as well as reducing memos being sent to the back office.
- Attachments of earnings have increased significantly since the beginning of the year with 897 attachments of earnings now in place compared to 242 in April. Attachments to benefits have gone up from 751 to 1,414.
- The number of staff engaged in council tax is low compared to the number of properties in the borough. To help boost performance an additional 5 staff were recruited in the autumn and they started work during November and December. The addition of these staff saw collection improve at a faster rate during the last quarter as the service was better able to keep up to date with incoming work. In addition the team cleared a backlog of bailiff returns, improved the selection of cases for enforcement by bankruptcy and committal action and property inspections were commenced which are vital for keeping the database up to date.
- In November our recovery schedule was amended so that late payers were reminded in the month that payment was due rather than in the following month.

2.5 Paragraph 2.3 above sets out the volume of council tax outstanding year by year from 1999. The decision to write-off is dependent on the steps already taken and potentially exhausted to recover the debt.

2.6 During the fourth quarter of 2011/12 approximately £450k was approved for write-off but is not showing on appendix A as it was not removed before the end of the financial year, the amount will be reported in the next report alongside the council tax that will have been written off in the first quarter of 2012-13. The delay was because of the work required to ensure the system reconciles with the write-offs made.

NNDR performance quarter 4 and service improvements

2.7 NNDR collection for the year was 96.4%, equating to £51.46m of the £53.4m debt due. This is 0.4% above the target.

- 2.8 Plans are in place to improve case selection for enforcement action as well as automating key processes such as refunds to improve capacity within the team. New updated procedures will be completed in the first quarter of 12-13 and will detail the specific points where bailiff, bankruptcy or committal action should take place. It will also highlight the parts of the process where contact should be attempted with the debtor either by phone or visit to the business. This will reduce the number of cases moving into enforcement and improve relations between the service and businesses within the 2 boroughs.

Rents collection performance and service improvements

- 2.9 At the end of year rent collection achieved was 97.72%, which is 0.97% above the profile performance of 96.75%. At the end of March the collection for the financial year is £92.8m of the £95.0m collectable in year. In addition the arrears for current tenants reduced from £3.856m at the start of the year to £3.274m by the end of March.
- 2.10 Elevate have stabilised the Capita IT system. The improved stability of the system has enabled the despatch of quarterly rent statements and statements on demand for all tenants. System reports on cases that need arrears action have been working reliably which has meant that tenants have received arrears letters on time and at an earlier stage than last year. We are taking action on debt at lower levels when there is still a realistic prospect of tenants making arrangements to clear the debt in the current financial year. Additional resources have been made available to ensure that we take tenants to Court to obtain possession orders where debt is high. Court action is effective in producing large payments of arrears and Court orders for eviction regularly produce full clearance of the debt.

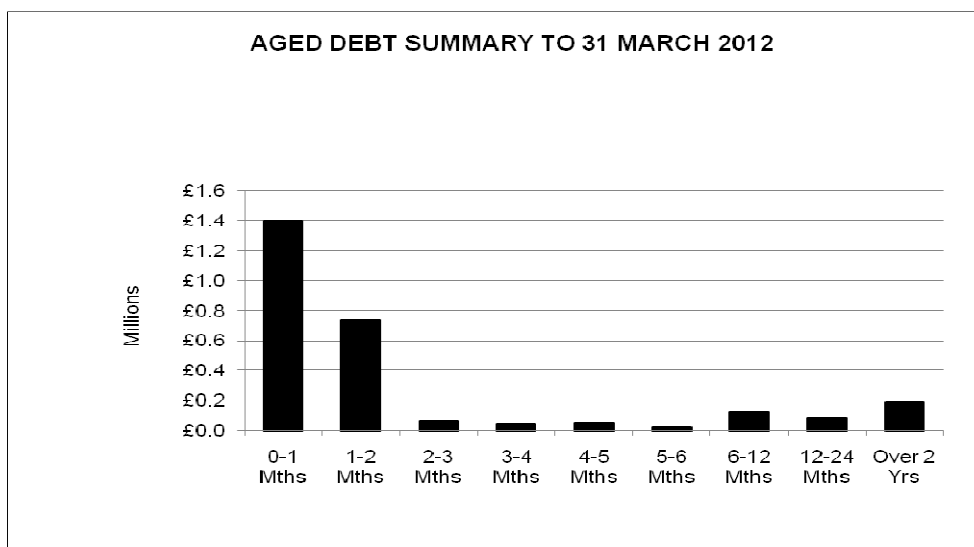
Rents 2011-12 and service improvements

- 2.11 One Stop Shop staff at Barking Learning Centre and Dagenham Library have received extensive training on Rents since April and the number of tenants attending for advice is around 100 each week across both sites. The telephone team within the Rents service will be moving to join staff in the contact centre in June this year which should bring about more synergy between rents and Housing Benefit knowledge.
- 2.12 Elevate encourage payment by Direct Debit (DD). The Council have launched a quarterly prize draw to promote DD that offers one prize of £250 and two of £100. To qualify tenants pay by DD and must not be in arrears. The prize draw is promoted in the regular communications to tenants and in the sign-up process for new tenants.
- 2.13 The team continue to look at options to ensure smarter working; foremost being more joined up working with the Housing service. The review of the end to end process will continue and look to include all parties involved in order to provide a better service to tenants that will help prevent arrears, identify potential abandoned tenancies and prevent evictions. Monthly meetings have been established to track progress on arrears and will be a feature of joint working between Housing and Elevate this year.

- 2.14 To ensure HB take up is maximised at tenancy sign up, Dagenham Library have recently joined the Barking Learning Centre in dealing with HB assessments when customers sign up for new tenancies.
- 2.15 On line access to rent account balances and to order a Rent payment card is due to be available from June 2012. SMS texting was introduced in Quarter 3 so that lower level arrears cases receive a text message in addition to a standard arrears letters and tenants can text for a balance. Tenants will soon be able to pay their rent by text.

General Income

- 2.16 General Income is used to describe the ancillary sources of income available to the Council, and which support the cost of local service provision. Examples of income streams from which the Council derives income include; charges for social care; rechargeable works for housing; nursery fees, trade refuse, truancy penalty notices, hire of halls and football pitches. A single computer system is used for the billing of these debts and collection performance across all these debts is reported together.
- 2.17 The current aged profile of the debt¹ is as follows:



- 2.18 In 2011/12 £63.1m of general income collectable debt was raised of which £62.89m (99.62%) was collected by Elevate's General Income team. This compares to 2010/11 when 99.04% was collected.
- 2.19 Elevate make sure that the debt is pursued while a reasonable prospect remains of collecting the debt. For example the above chart shows a tranche of debt that is over two years old. With these (around 300 cases) most commonly Elevate are in discussion with the issuing department to decide on the next steps or the debt has legal action pending. All debts are monitored on a regular basis to ensure that appropriate action is being taken. We make arrangements to pay by instalments, have a personal contact within the PCT and make regular phone calls to try to receive payment to reduce any court action, which is used as a last resort.

¹ Aged debt reflects invoices that remain unpaid after the 21 days. 21 days being the Council's payment terms. It excludes charges for home and residential care and penalty charge notices that are reported separately.

- 2.20 The collection of Leasehold Service Charges and Penalty Charge Notices are monitored through separate computer systems and the performance of these is reported separately.

General Income: Leaseholders

- 2.21 For the in-year charges for 2011-12² performance for the collection at the end of 2011-12 stood at a total of £2,656,449 from a debit of £2,992,425 which gives a collection rate of 88.77%, and for previous year's debt Elevate collected £656,168 of £911,954 which gives a collection rate of 71.95% for arrears. The overall collection rate for all years, i.e. in-year debt and arrears at 31 March 2012 stood at 84.84% which is 13.19% above the percentage collected in 2010-11.

General Income: Leaseholders - improvements

- 2.22 The focus during 2011-12 has been on ensuring leaseholders receive their statements on time and that leaseholders can get through easily on the telephone as and when they need to. For leaseholders in arrears a large amount of work has been done to ensure relevant cases were processed for court action. This has resulted in the improved collection highlighted above. Changes to further improve collection will continue into next year and will be focusing on increasing and improving the communication with those behind in their payments with a greater variety of letters and increased telephone contact.

Penalty Charge Notices

- 2.23 The Council refer unpaid Penalty Charge Notices (PCNs) for parking, bus lane and box junction infringements to Elevate for enforcement once a warrant has been obtained from the Traffic Enforcement Court. The vast majority of these relate to parking infringements. Elevate's revenues and benefits service is restricted to dealing with the PCNs once a warrant has been granted by the Traffic Enforcement Court. Therefore this report only reports on Elevate's work in enforcing warrants through the bailiffs. Overall collection rates on PCNs will be reported by Environmental and Enforcement Services (Parking Services).
- 2.24 In May 2010 the Council introduced a new computer system for dealing with PCNs. However because of problems with this system the Council was not able to get warrants on this debt until early December 2011. From December 2011 until the end of March 2012 7 batches of warrants were sent to bailiffs by Elevate for a total value of £1,369,980. The total collected by the end of March was £71,607.
- 2.25 For the PCNs prior to May 2010 Elevate have been asked to focus on outstanding PCNs from the previous computer system. To this end Elevate is worked closely with the Council to maximise recovery and clear remaining cases so that the old computer system can be shut down. This involved examining each case and recommending how to take the case forward. In the majority of cases this involves a recommendation to cancel the debt. As the debt is old, successful recovery is unlikely in most circumstances. The collection rate achieved by bailiffs on this old debt is only around 6%.

² These figures are subject to final validation.

2.26 The first batch of warrants related to PCNs from May 2011 were sent to bailiffs on 7 December 2011. Until 31 March a further 7 batches of warrants were passed to bailiffs. Warrants for this debt expire after 12 months so the collection rate can only properly be measured upon the expiry of the warrants after 12 months. Bailiff performance so far is set out in paragraph 2.40.5 below. The collection rate at this stage is low, however it needs to be borne in mind that the warrants are collected over a 12 month period and collection rates are low for this type of debt. Top quartile for the Council's family of comparators is 18% and Elevate expect to achieve this level of collection for batches of warrants once they have expired after 12 months.

Fairer Contribution Charging

2.27 From October 2011, billing commenced in accordance with the Council's new Fairer Contribution Policy.

2.28 Bills are issued every four weeks in arrears. A bill is classed as due for immediate payment after 28 days. Elevate's performance is recorded on debts that are 90 days old. As at 31 March performance was 89.41%. Elevate will work closely with Adult Services to get the billing data as accurate as possible and in this way further improve collection over the next 12 months. All payers will be asked to set up Direct Debits and home visits to assist in this will be made if required.

2.29 As part of the new Fairer Contributions Policy project, the database used to manage and charge for care provided in residential homes changed from Abacus to Swift. Elevate completed the migration of all outstanding debt on Abacus to the Oracle financial management system by the end of March.

2.30 Similarly, the database used to manage home care charging has changed from POC to Swift. As with Abacus debt, Elevate migrated all outstanding debt on POC to Oracle by the end of March 2012.

Bailiff Performance

2.31 Currently Elevate use three bailiff companies, Newlyn, Equita and JBW. Bailiffs are used to collect for the following debts:

- Council Tax
- National Non Domestic Rates
- Benefit Overpayments
- Sundry Debts
- Commercial Rents
- Benefit overpayments.
- Car Parking

2.32 For Council Tax bailiff firms Newlyn and Equita are used to enforce non payment and Newlyn are used for the non payment of NNDR. A bailiff cannot be instructed to carry out this work until the Council has obtained a liability order at court. The bailiff will visit the property with the intention of collecting the debt or removing goods to the value of the debt.

- 2.33 Day to day working arrangements are in place so that the Council Tax team have access to the bailiff's computer system and update individual cases in real time. Changes include amendments to debts, the recall of cases where appropriate and the making and updating notes on the system. Bailiffs will not remove goods without direct authorisation from the Council Tax manager and removal is extremely rare as the debtor's goods are highly unlikely to cover the unpaid debt. Bailiffs have direct access to council tax staff to check information and where swift action is required the council tax team can contact the bailiff companies by phone. The same arrangements exist for Business Rates.
- 2.34 Throughout the course of the year regular meetings are held with the bailiff companies to discuss performance and resource. Bailiffs are always challenged to improve their performance and they are provided with information on how the other bailiffs are performing. Where necessary Elevate will reduce the amount of work going to bailiff where performance is deemed to be too low. Bailiffs only collect their fees when they successfully recover debt for the Council.
- 2.35 Bailiff companies have by request ensured that where new cases are sent they increase the number of bailiffs working in the area to ensure that there is a minimal delay between the cases referral and first contact.
- 2.36 Below a certain level sundry debt cases are deemed to have too low a balance to make court action economically viable. Such debts are referred to the bailiff for collection who seek to recover the debt using letters and phone calls to make contact in order to collect the debt. Where internal methods of collection have failed, benefit overpayments are referred to the bailiff for collection. They will write to and phone the debtor and where this proves unsuccessful they will visit the property with the intention of collecting the debt.
- 2.37 In most cases once a debt has been referred to the bailiff and the bailiff has been unable to collect the debt and where other available avenues are not possible the only route left is to write the debt off. Details of the write offs in quarter four of 2011/12 are in paragraphs 2.48 to 2.50 and in appendices A, B and C.
- 2.38 Bailiff action is a key tool in Elevate's work to recover overdue debts but is only one area of collection work.
- 2.39 Detail of bailiff performance by type of debt for 2011/12 by debt is set out below:

Council Tax

Year	Value of cases less returns	Total remitted	Collection rate %
2011-12	4,609,374.96	713,214.10	15.5%

NNDR

Year	Value of cases less returns	Total remitted	Collection rate %
2011-12	£1,921,783.50	£418,208.00	21.8%

General Income

2011/12	Value of cases	Total remitted	Collection Rate (%)
TOTAL	143,510.26	25,582.71	17.83

Commercial Rent

Bailiff Work (commercial rent)	Number referred to bailiff April to March	Value Referred to bailiff April to March	Amount Collected by bailiffs April to December	% Collected by bailiffs April to December
2011-12	31	77,614.46	60,228.45	77.60 ³

2.40 Road Traffic Debt

The first batch of warrants related to PCNs from May 2011 was sent to bailiffs on 7 December 2011. Up to 31 March a further six batches of warrants were passed to bailiffs. Warrants for this debt expire after 12 months so the collection rate can only properly be measured upon the expiry of the warrants after 12 months. However, the performance as at 31 March is set out below:

Year	Value of cases less returns	Total remitted	Collection rate %
2011-12	£1,369,980	£71,607	5.23%

2.41 The relatively low percentage collected by bailiffs as shown above needs to be seen in context. Elevate's revenues teams will attempt to collect their respective debts by means other than bailiffs where possible. However, where these methods have been exhausted bailiffs will be utilised.

2.42 In relation to council tax and business rates this can result in a large number of cases being sent at the same time to the bailiff and so can make performance in terms of cash collected as a percentage low. Although the teams will have attempted to cleanse the data related to the debts sent, in some cases there will be information about the property or debt that has not been supplied by the resident or landlord. In such cases the visit from the bailiff can often generate not only payment to the bailiff but direct payment to the council as well as hastening the supply of information that may change the account and/or details of a new occupant.

2.43 Although the bailiffs intention is always to collect unpaid debts, their actions also act as a deterrent and often prompt the supply of information that has a direct impact on whether they should continue to pursue the debt. Furthermore, bailiffs will often make payment arrangements over a number of months and due to the number of cases issued will take a number of weeks to visit all properties. It is expected that the bailiffs will collect approximately 20% of debts that are referred to them.

³ Performance is much higher as failure to pay will lead to loss of tenancy by the business.

Write off process

- 2.44 Where a debt is written off it is the case that measures have been taken to collect all debts and levies due; it is the case that some debts will remain unpaid, even after concerted efforts have been made to collect them.
- 2.45 Debts are categorised and recommendations made to write-off amounts deemed to be irrecoverable. The write-off of debt allows the service to focus on debts that are more likely to be recovered. At the same time the Council makes provision within its accounts for debts that are likely to be written-off.
- 2.46 The write-offs presented in this report fall into two broad categories. Firstly, debts Elevate is unable to collect on the Council's behalf because for example the customer is deceased and there is no estate, the customer has gone away and cannot be traced, or the age of the debt precludes recovery. Secondly, there are cases where it is uneconomic to collect.
- 2.47 Of the debts written off the three main reasons were that for 38.18% the debtor had absconded and could not be traced, for 45.66% it was deemed uneconomical to pursue the debt and for 7.88% the debtor was insolvent.

Debt Write-off: Quarter 4 2011/12

- 2.48 The value of debts written off for the first quarter, second and third quarters of 11/12, i.e. April to December 2011 total: £ 785,910.08 (see Appendix B). Write-offs for debts managed by Elevate for the fourth quarter total £1,208,847.44 and are set out in Appendix A.
- 2.49 In 2010/11 almost £2.4m was written off (Appendix C) compared to £2,374,433 in 2012-13.
- 2.50 The volume of write-offs that were actioned in the fourth quarter is lower than expected as no Council Tax write offs were written off the computer system although around £450,000 was approved for write-off. The delay was because of the work required to ensure the system reconciles with the write-offs made. These will appear in the next report for the first quarter of 2012-13. This delay in reconciliation will not be repeated.

Publication of individual details of debts written off (Appendix D)

- 2.51 A number of Authorities publicise the details (names, addresses etc.), of residents who have had debts written off. In the majority of cases, these debts have been written off where the debtor has absconded.
- 2.52 The Council agreed in November 2007 (Minute 69, 6 November 2007) that a list showing the details of debtors, who have had debts written off, would be attached to this report. A list has been attached at Appendix D. The list has been limited to the top ten debts only.
- 2.53 As was previously outlined within the 6th November 2007 Cabinet report, it was recommended that the following types of debt write offs are excluded from this publicised list:

- a) Debts that have been written off following a corporate complaint being upheld;
- b) Debts that have been written off due to the debtor falling within one of the vulnerable groups (e.g. elderly, disabled, infirm etc.);
- c) Where the original debt was raised in error;
- d) Where debts have been written off, but no legal action has been taken to prove that the debt was legally and properly due;
- e) Where the debt has been written off following bankruptcy or insolvency action (the majority of these cases will be individually publicised).

2.54 The exclusion of the category of debts listed above will eliminate the possibility of any unnecessary and potentially costly legal challenges from debtors, who take issue with their details being publicised. It is intended that where the details or whereabouts of debtors become known following publication, those debtors will be pursued as far as is possible, to secure full payment of the debt.

2.56 The list provided at Appendix D does not include debts or debtors that fall within categories a-e above, so the list as it stands can be publicised.

3. Options Appraisal

3.1 This is not relevant for an information report.

4. Consultation

4.1 This is not relevant for this information report.

5. Financial Implications

5.1 As part of the closure of the Council's accounts each year, a review of outstanding debts is made and an estimate of bad and doubtful debts is provided for. All write offs in year are made against that provision. The level of bad debts proposed and agreed for write off is monitored quarterly against the provision made at year end.

5.2 Improvements in the pursuit and collection of debt enables the Council to make a lower provision and improves the level of balances and reserves though debts are only pursued to the point that it is economically sensible to do so.

6. Legal Implications

6.1 The pursuit of debts owed to the Council is a fiduciary duty. The Council seeks to recover money owed to it by the courts once all options are exhausted. Not all debt will be recovered and a pragmatic approach has to be taken with debts as being on occasions, uneconomical to recover in terms of the cost of process and the means of the debtor to pay. As observed in the body of this report, in the case of rent arrears, a possession and subsequent eviction orders are a discretionary remedy and the courts will on many occasions suspend the possession order on condition the tenant makes a contribution to their arrears. The Councils decision to utilise Introductory Tenancies will over time begin to have an impact as only those tenants with a satisfactory rent payment history can expect to be offered a secure tenancy.

6.2 The decision to write off debts has been delegated to Chief Officers who must have regard to the Financial Rules.

7. Other Implications

7.1 **Risk Management** - No specific implications save that of this report acting as an early warning system to any problems in the area of write off's.

Background Papers Used in the Preparation of the Report:

- Operational Improvement Plans for Revenues Service areas.

List of appendices

- Appendix A – Debt Write Off Table for Quarter 4 2011/12
- Appendix B – Tables summarising the debt written off for Quarter 1, Quarter 2, Quarter 3 and Quarter 4
- Appendix C – Debt write offs for 2010/11
- Appendix D – Top Debts Written Off