

## CABINET

24 September 2013

<b>Title:</b> Debt Management Performance and Write-Offs 2013/14 (Quarter 1)	
<b>Report of the Cabinet Member for Finance</b>	
<b>Open Report</b>	<b>For Information</b>
<b>Wards Affected:</b> None	<b>Key Decision:</b> No
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<b>Summary</b> This report sets out the performance of the Council's joint venture, Elevate East London, in carrying out the debt management function on behalf of the Council and covers the first quarter of the year 2013/14. It also includes details of debt written off in accordance with the write off policy approved by Cabinet on 18 October 2011.	
<b>Recommendation(s)</b>  The Cabinet is recommended 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 first quarter of 2013/14 and that a number of these debts will be publicised in accordance with the policy agreed by Cabinet.	
<b>Reason</b> Assisting in the Council's Policy 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 the Council's joint venture, 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 the first quarter of 2013/14 and covers the overall progress of each element of the service for the period. 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 first 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 in table 1 below is the performance for quarter 1 of 2013/14 achieved by Elevate for each of the functions of the Revenues Service during the financial year.

**Table 1: Collection Rate Performance – 13-14**

Type of Debt	Annual Target	Target for Quarter 1	Performance	Variance	Actual collected £m
<b>Council Tax</b>	93.5%	28.3%	29.4%	+1.1%	16.489
<b>NNDR</b>	97.4%	33.6%	32.1%	-1.5%	19.045
<b>Rent</b>	96.50%	96.50%	97.49%	+0.99%	24.833.
<b>Leaseholders</b>	91.8%	23.25%	29.00%	+5.75%	1.083
<b>General Income</b>	94.64%	38.98%	56.99%	+18.01%	13.080

### Council Tax collection performance

2.2 Council Tax collection at the end of the first quarter is 1.1% above the target and 0.1% below the actual performance at the same time last year. Collection of Council Tax from those who used to receive Council Tax Benefit for the full sum but now receive Council Tax Support (CTS) for a lower amount, and therefore have to pay some Council Tax. The collection for those on CTS at the end of the first quarter was 25.7% compared to 29.6% for those not in receipt of CTS.

2.3 Changes and improvements:

- i. During the first quarter payers receiving CTS were split from other payers to try and reduce the impact upon the service. Therefore reminders, Final Notices and summonses were sent at different times to all other payers.
- ii. Recovery action has increased by from 20,000 to 41,000 reminders. Some of this is due to the additional new payers, i.e. those who previously received full Council Tax benefit, and the rest reflects that collection is becoming more difficult. The processes put in place by Elevate have ensured to date that the overall collection rate has remained comparable with last year.
- iii. Additional Customer Service officers have been trained and the Service is supporting their development to ensure they reach the required standard.
- iv. The segmentation of accounts prior to bailiff action has seen collection maintained with another 501 attachment to earnings and 863 attachments to benefits created.

- v. The payment arrangement procedure continues to ensure that those requiring more time to pay are managed correctly. Those that fail to adhere to the terms of the arrangement are quickly identified and debt recovery action initiated.

### **NNDR collection performance**

- 2.4 The NNDR collection rate at the end of the first quarter is 32.1% which is 1.5% below the target and 0.7% below the same time in 2012/13.
- 2.5 The financial climate continues to have a detrimental effect upon businesses within the Borough making collection of Business Rates within year challenging.
- 2.6 Debt recovery procedures have been reviewed to ensure that debts are progressed to bailiffs in a timely fashion.
- 2.7 Proactive outbound calling has been adopted to identify ratepayers that are beginning to fall behind with payments. This will ensure that these cases are quickly identified and payment agreed.
- 2.8 The Service is in the middle of significant change due to London Borough of Havering's decision to terminate our partnership on this service. The reason provided for this is to add this service to their revised approach to providing Customer Services, including business ratepayers.

### **Rent collection performance**

- 2.9 The rent collection target of 96.5% is being exceeded at the end of quarter 1 with collection of 97.49%.
- 2.10 The introduction of the bedroom tax affects 1,600 of our tenants. Of the 1,600 tenants who have lost housing benefit this year because they are deemed to have one or more excess bedrooms; 47% are in rent arrears. This group as a whole owe £340k. Taking further recovery action in respect of this group of tenants will be potentially constrained. Recovery action against tenants who have arrears which are caused in the main by the bedroom tax changes is restricted as further action will not take place while tenants in this group are actively seeking to move to smaller accommodation.
- 2.11 Various actions have been taken to improve performance in rent collection:
  - i. A good platform is in place to ensure that new arrears are minimised with procedures agreed between the Council and Elevate. These procedures are designed to ensure that rent accounts are closed more swiftly when tenants move out.
  - ii. Elevate are proactively seeking to backdate housing benefit entitlement for tenants who have experienced a loss of entitlement due to being too vulnerable to comply with the standard claims requirement.
  - iii. Elevate have included messages on rent statements and on-line reminding tenants to put rent payment first and have highlighted the possible consequence of non-payment.
  - iv. Improved procedures are in place at the sign up of new tenancies to maximise housing benefit take up from the start of tenancy and encourage payments through direct debit.

## Leaseholders' debt collection performance

2.12 The leasehold collection target for the year has been set at 91.80%. In the first quarter Elevate achieved 29% which is above the expected profile by 5.75%.

## General Income collection performance

### Overall position

- 2.13 General Income is 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 include: penalty charge notices; social care charges; housing benefit overpayments; rechargeable works for housing; nursery fees; trade refuse; truancy penalty notices; hire of halls and football pitches. Oracle is used for the billing of these debts and collection performance by Elevate for its activities across all these debts is reported together.
- 2.14 Collection has started the year well with over £13m being collected in the first quarter against a debit of £23m. This collection is above the profile for the previous year with more effective school salary collection having been implemented by the team. The remainder of this section considers a selection of General Income debts which have specific separate target collection rates.

### ACS Homes and ACS Residential (Collection of social (home and residential) care charges)

- 2.15 The Council's Fairer Contribution Policy commenced from October 2011 and applies to home care. Residential care charges are covered by the Department of Health's *Charging for Residential Accommodation Guide* (CRAG).
- 2.16 Collections of debt for home and residential care are reported separately. For both, the agreed measure for performance reporting is the percentage collected on debt over 90 days old and performance reporting can include debts from previous financial years.
- 2.17 Residential care debt which the Council has secured with a charging order against the client's assets, usually their property, is not included in these figures.

### Residential care

	Invoices	Debit Raised (£000)	Total Collected (£000)	Collection rate	Target	Difference
Jun	90+ days	3,796	3,424	90.20%	90.00%	+0.20%

### Homecare

	Invoices	Debit Raised (£000)	Total Collected (£000)	Collection rate	Target	Difference
June	90+ days	2,010	1,839	91.50%	90.00%	+1.50%

- 2.18 The recovery process of these debts is similar to that of other debts, but with added recognition given to particular circumstances. In order to ensure that the action taken is appropriate and to maximise payments each case is considered on its

merits at each stage of recovery 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.

#### *Housing and Environment: Penalty Charge Notices*

2.19 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 from the Traffic Enforcement Centre (TEC). The majority of these relate to parking infringements and Elevate enforce these warrants through bailiffs and monitor their performance. Overall collection rates on PCNs will be reported by Environmental and Enforcement Services (Parking Services). Performance is set out in 2.21 below.

#### *Housing Benefit Overpayments*

2.20 In the first quarter of the year collection totalled £801,000. This is in line with the collection profile from 2012/13.

### **Bailiff Performance**

2.21 Bailiff action is a key tool for the Council to recover overdue debts but is only one area of collection work. Due to the probable increase in arrears following the introduction of Council Tax Support as a replacement of Council Tax Benefit, there are now over 16,000 additional households liable to pay Council Tax. There will also be impacts on the Council's ability to collect sums due as the Welfare reforms begin to take effect.

2.22 A full report was therefore made to the Public Accounts and Audit Select Committee (PAASC) meeting on 26 June clarifying the scale of the potential impact in 2013/14, and the recovery processes the Council uses. The key to the Council's approach is that it encourages contact and payments as soon as possible, which maximises the opportunity for the taxpayer to not incur the added costs relating to summons. The norm in 2011/12 and 2012/13 was for less than 25% of reminders to lead to action by bailiffs. It is not anticipated that this percentage will change in 2013/14.

2.23 An extract from the PAASC report clarifying the recovery process is included at Appendix A.

2.24 Information on the performance of the Bailiffs is set out in the table below by type of debt for quarter 1 of 2013/14:

<b>Service</b>	<b>Value less returns (£000)</b>	<b>Total remitted (£000)</b>	<b>Collection rate</b>
Council Tax	1,566	23	1.47%
NNDR	1,116	185	16.59%
General Income	48	9	19.5%
Road Traffic	1,130	198	17.54%
Commercial rent	14	12	85.6%

2.25 The majority of cases sent to the bailiffs for Council Tax in quarter one relate to 2012/13 debts but in the period reported, some current year cases were also referred. This resulted in the bailiff having a proportion of cases which would have only been with them for action for around 10 working days. In effect this means that the bailiff had no time in which to begin recovery action which is reflected in the low collection rate. Quarter one collection last year was 3.15%. Collection will improve in the second and subsequent quarters.

#### **Debt Write-off: Quarter 4 2012/13**

2.26 Any debt recommended for write off is in accordance with the policy of the Council who have the final decision with regard to write off. The value of debt recommended to the Chief Finance Officer and subsequently approved for write off during the first quarter of 2013/14 (April to June 2013) totalled: £171,623 (Appendix B).

2.27 The figures in Appendix C show the total write-offs for 2011/12 and 2012/13 as well the debts written off in the first quarter of 2013/14.

2.28 589 debts were written off in quarter 1 of which:

<b>Absconded/not traced</b>	<b>Uneconomic to pursue</b>	<b>Debtor Insolvent</b>	<b>Deceased</b>	<b>Other reasons</b>
10.9%	64.5%	2.4%	19.7%	2.5%

(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).

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

2.29 In line with Council policy established in 2007 due to the difficulties of finding absconding debtors, a list showing the details of some debtors who have had debts written off is attached to this report at Appendix D. The list has been limited to the ten largest debts only and can be used in the public domain.

### **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 Collecting all sums due to the Council is critical to its 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. An example of this is the need to collect prior to or when a service is provided, thereby avoiding the need to raise an invoice and collect a debt.

5.3 These meetings also ensure that key activities to enable debts to be collected and accurately administered are being carried out. A key indicator of this is the processing of bad debts. At the end of Q1 the total of write-offs at £171,623 indicates that this is happening, but not at the level needed.

## **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 Council's 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:**

RBGIR monthly report

### **List of appendices**

**Appendix A** – Debt recovery process – extract from report to PAASC 26 June 2013

**Appendix B** – Debt Write Off Table for Quarter 1 2013/14.

**Appendix C** – Debts written off in 2011/12 and 2012/13 and totals.

**Appendix D** – Ten Largest Debts Written Off in Quarter 4, 2012/13