

CABINET

18 December 2013

Title: Debt Management Performance and Write-Offs 2013/14 (Quarter 2)	
Report of the Cabinet Member for Finance	
Open Report	For Information
Wards Affected: None	Key Decision: No
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Accountable Director: Jonathan Bunt, Chief Finance Officer	
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 covers the second 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.	
Recommendation(s) 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 second quarter of 2013/14 and that a number of these debts will be publicised in accordance with the policy agreed by Cabinet.	
Reason 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 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.

- 1.2 This report sets out the performance for the second quarter of 2013/14 and covers the overall progress of each element of the service since April 2013. 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 second 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 2 of 2013/14 achieved by Elevate for the main lines of debt managed by the Revenues Service during the financial year.

Table 1: Collection Rate Performance – 13-14

Type of Debt	Annual Target	Target for Quarter 2	Performance	Variance	Actual collected £m
Council Tax	93.50%	54.40%	55.60%	+1.20%	31.243
NNDR	97.40%	56.90%	56.10%	-0.80%	33.227
Rent	96.50%	96.79%	97.05%	+0.26%	51.144
Leaseholders	91.80%	46.25%	50.72%	+4.47%	1.910
General Income	94.64%	62.31%	72.22%	+9.91%	32.167

Council Tax collection performance

- 2.2 Council Tax collection at the end of the second quarter is 1.20% above the profile and 0.10% above the performance at the same time last year. Collection of Council Tax, from those formerly on Council Tax Benefit but who now receive Council Tax Support (CTS) for a maximum of 85% of the tax, at the end of the second quarter, was 45.70% compared to 57.40% for those not in receipt of CTS.

2.3 Changes and improvements:

- i. During the second quarter debt recovery action continued for non payers with 7,100 summonses being issued for the year.
- ii. Enforcement action has been initiated and 2,168 attachments to earnings or benefit have been created since the start of the year. These are identified via account segmentation prior to bailiff action.
- iii. Work began on improved scripts for the contact centre to assist in improving the quality of information given to customers.
- iv. 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 recovery action is initiated.

NNDR collection performance

- 2.4 The NNDR collection rate at the end of the second quarter is 56.10% which is 0.80% below the profile but 0.60% above the same period in 2012/13.

- 2.5 There was significant disruption, including a team restructure, leading up to the cancellation of the Shared Business Rates Service with Havering at the end of September. Whilst the team now has more resources overall there is also an agreed proportionately higher collection target to achieve.
- 2.6 The financial climate continues to have a detrimental effect upon businesses within the Borough making collection of Business Rates within year challenging.
- 2.7 Recovery procedures have been reviewed to ensure that debts are progressed to bailiffs in a timely fashion.
- 2.8 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.
- 2.9 The largest value one hundred debtors are being specifically targeted to ensure recovery is appropriate and effective where required.

Rent collection performance

- 2.10 The rent collection target of 96.50% is being exceeded at the end of quarter 2 with collection of 97.05%.
- 2.11 The introduction of the bedroom tax affects approximately 1,600 of our tenants. Of those tenants who have lost housing benefit this year because they are deemed to have one or more excess bedrooms; 48% are in rent arrears. This group as a whole owe £366k and recovery action is only taken against these tenants at the agreement of the Council and based on each case's merits. Where tenants have arrears caused in the main by the bedroom tax changes recovery action will not take place whilst they are actively seeking to move to smaller accommodation
- 2.12 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 learning difficulties or mental illness which prevents them being able to comply with the standard claims requirement.
 - iii. Elevate have included messages on rent statements and on-line reminding tenants to prioritise rent payments first and the possible consequences of non-payment are highlighted.
 - 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.
 - v. Rents campaigns of visiting high density blocks of flats by staff in groups was carried out in July and August.

Leaseholders' debt collection performance

- 2.13 The leasehold collection target for the year has been set at 91.80%. In the second quarter Elevate achieved 50.72% which exceeds the expected profile by 4.47%.

General Income collection performance

Overall position

- 2.14 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.
- 2.15 Collection has started the year well with over £32m being collected in the first two quarters against a debit of £44.5m. 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 collection rate targets.

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

- 2.16 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).
- 2.17 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.
- 2.18 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
Sept	90+ days	4.545	4.212	92.68%	90.00%	+2.68%

Homecare

	Invoices	Debit Raised (£000)	Total Collected (£000)	Collection rate	Target	Difference
Sept	90+ days	2.339	2.178	93.12%	90.00%	+3.12%

- 2.19 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 own 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

- 2.20 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 2.25 below.

Housing Benefit Overpayments

- 2.21 In the first two quarters of the year collection totalled £1,650,000. This is ahead of the collection profile target by £162,000.

Bailiff Performance

- 2.22 Bailiff action is a key tool for the Council to recover overdue debts but is only one area of collection work. There are now over 13,000 additional households liable to pay Council Tax following the introduction of Council Tax Support as a replacement of Council Tax Benefit and with this comes a probable increase in arrears. This is not a static group as residents move in and out of work. The Council's ability to collect sums due will be progressively affected as the welfare reforms take effect alongside the cumulative yearly effect of CTS on arrears.
- 2.23 A report was made to the Public Accounts and Audit Select Committee (PAASC) meeting on 26 June 2013 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 not to incur the added costs for being summonsed. 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.
- 2.24 The majority of cases sent to the bailiffs for Council Tax in quarter one relate to 2012/13 debts. Quarter two has seen more referrals relating to 2013/14 debts as recovery cycles gather pace. This resulted in the bailiff having a proportion of cases for only around 10 working days by the end of quarter two. Consequently the bailiff had no time in which to begin recovery action and this is reflected in the low collection rate. Collection will continue to improve over the rest of the year.
- 2.25 Information on the performance of the bailiffs is set out in the table below by type of debt for quarters 1 and 2 of 2013/14:

Service	Value sent to bailiffs (£000)	Total collected by bailiffs (£000)	Collection rate
Council Tax	2,988	204	6.83%
NNDR	1,531	236	17.92%
Road Traffic	1,584	288	18.19%
Commercial rent	24	23	94%
General Income	61	16	27%

Debt Write-off: Quarter 2 2013/14

- 2.26 All debt recommended for write off is done so in accordance with the policy of the Council who have the final decision with regard to approval. The value of debt recommended to the Chief Finance Officer and subsequently approved for write off during the second quarter of 2013/14 totalled: £132,980. The detail of the value of cases and number of cases written off is provided in Appendix A.
- 2.27 The figures in Appendix B show the total write-offs for 2011/12 and 2012/13 as well the debts written off in the first and second quarters of 2013/14.
- 2.28 351 debts were written off in quarter 2 of which:

Abscinded/not traced	Uneconomic to pursue	Debtor Insolvent	Deceased	Other reasons
10.50%	77.80%	0.60%	6.30%	4.80%

(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 C)

- 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 C. The list has been limited to the ten largest debts only and can be used in the public domain.

3. Financial Implications

Implications verified by: Jon Bunt, Chief Finance Officer

- 3.1 Collecting all sums due is critical to the Council's ability to function. 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 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.

- 3.3 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 Q2 the total value of write-offs indicates that this is happening, but not at the level needed. The volume of write-offs declined in quarter two as the service focused on the collection of current year debts.

4. Legal Implications

Implications verified by: Fiona Taylor, Head of Legal and Democratic Services

- 4.1 The pursuit of debts owed to the Council is a fiduciary duty. The Council seeks to recover money owed to it by way of courts action once all options are exhausted. Not all debt will be recovered and a pragmatic approach has to 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. As observed in the body of this report, in the case of rent arrears a possession 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. 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.
- 4.2 The decision to write off debts has been delegated to Chief Officers who must have regard to the Financial Rules.

5. Other Implications

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

Background Papers Used in the Preparation of the Report:

- RBGIR monthly report

List of appendices:

Appendix A – Debt Write Off Table for Quarter 2, 2013/14

Appendix B – Debts written off in 2011/12 and 2012/13 and totals for 2013/14

Appendix C – Ten Largest Debts Written Off in Quarter 2, 2013/14