

Title: Corporate Debt Management - Position to 31st March 2023

Meeting: Cabinet

Date: 28 June 2023

Classification: Part 1

Policy Context:

Key Decision: No

Report Author: Richard Campbell, Council Tax Manager

Executive Councillor: Councillor Cox Leader and Cabinet Member for SEND

1. Executive Summary

1.1 The purpose of this report is to apprise Cabinet of the following:

- The end of year position, 31 March 2023 of outstanding debt to the Council.
- Debts that have been written off, or are recommended for write off, for the financial year to 31 March 2023.
- Obtain approval for the write off of irrecoverable debts that are over £25,000.
- The Council's Debt Collection and Recovery Policy which was last updated and approved in November 2017.

2. Recommendations

It is recommended that Cabinet:

- 2.1 Notes the finalised outstanding debt position as at 31 March 2023 and the position of debts written off to 31 March 2023 as set out in **Appendices A & B**.
- 2.2 Approves the six write offs for debts that exceed £25,000, as shown in **Appendix B**.
- 2.3 Notes the existing Debt Collection and Recovery Policy approved in November 2017 (**Appendix C**) and that a refresh of the policy is undertaken, and any proposed changes brought back for approval at September 2023 Cabinet meeting (**Section 3.13**).

3. Background Information

- 3.1 It was agreed by Cabinet on 19 March 2013 that the S151 Officer would submit regular reports to Cabinet on all aspects of the Council's outstanding debt, along with the required write off position. This is the final report for the financial year 2022/23.
- 3.2 Southend-on-Sea City Council is made up of several service areas, all of which are responsible for the collection and administration of outstanding debt. The main areas are Accounts Receivable and Revenues which are linked to the billing and collection of most debts that fall due to be paid to the Council for chargeable services, such as service/rental charges and statutory levies such as Council Tax and Non-Domestic Rates (Business Rates).

There are also other areas of debt that are included in this report, namely recovery of Housing Benefit Overpayments, Parking and Enforcement penalties and library fines. In addition, the position regarding outstanding debt levels for the Housing Revenue Account for rent arrears and service charges.

- 3.3 The process and legislative framework for the collection and write off of debt was detailed in the report to Cabinet on 17 September 2013. It is worth highlighting that the Council has a good success rate in collection of debt. The collection targets are agreed annually as part of the Council's service and financial planning process.
- 3.4 Debts are only considered for write off where all other courses of recovery available have been undertaken or explored and the debt is considered irrecoverable.

3.5 Council Tax

£113.3m of Council Tax was due to be collected in 2022/23, with a collection target of 97.5%. The Council achieved a collection rate of 97.5% during this year meaning in percentage terms the target was achieved. Total collection for the year in this area was £110.5m. Achieving this level of performance in what has been recognised nationally as a very difficult year is excellent and compares favourably with the rest of the country. The team have also effectively managed the Council Tax Rebate Scheme paying approx.70,000 households much needed support for their energy bills.

Collection is continuing for outstanding arrears for previous financial years. The chart below shows the actual in year collection rate over the past 4 years, and the collection rate of each year's charge to date, including debts that have been written off.

Council Tax Performance		
	As of 31 March of relevant year	As of 31 March 2023
1 April 2018 - 31 March 2019	97.5%	99.2%
1 April 2019 - 31 March 2020	97.5%	99.0%
1 April 2020 - 31 March 2021	96.7%	98.9%
1 April 2021 - 31 March 2022	97.4%	98.5%

The total level of Council Tax collectable increased for 2022/23, the Council now has a total cumulative outstanding debt level of circa £10m, this is an increase of around £1m as at the end of the last financial year. Plans are in place to commence a review later this year to assess older debts to ensure all debts held on account remain recoverable with £3.7m of this debt being older than three years.

3.6 **Non-Domestic Rates (Business Rates)**

£40m of Non-Domestic Rate was due to be collected in 2022/23, with a collection target of 98.0%. The Council achieved a collection rate of 98.7% during this year reflecting an increase of 0.7% in percentage terms and an increase in monetary terms of £0.26m in comparison to the collection target profile. Collection of £39.47m achieved instead of the targeted £39.21m. In percentage terms, this is the highest collection performance in this area in the last decade and reflects an extremely positive return for businesses following the reduced collection in recent years during the Covid pandemic.

Collection is continuing for outstanding arrears for previous financial years. The chart below shows the actual in year collection rate over the past 4 years, and the collection rate of each year's charge to date, including debts that have been already written off.

Non-Domestic Rates Performance		
	As of 31 March of relevant year	As of 31 March 2023
1 April 2018 - 31 March 2019	98.6%	99.9%
1 April 2019 - 31 March 2020	98.3%	99.9%
1 April 2020 - 31 March 2021	90.6%	99.8%
1 April 2021 - 31 March 2022	96.3%	99.7%

Following a largely successful year of collection, the business rate debt outstanding is £1.3m, which is a considerable reduction from the £2.2m of debt that was held on account as of 31 March 2022.

3.7 **Housing Benefit Overpayment**

This is any entitlement to a rent allowance or rent rebate that a person has received but is not entitled to. Most commonly this accumulates when there is a change to a person's circumstance, and they fail to notify us in good time. The overpayment will be invoiced unless they are in receipt of Housing Benefit in which case their benefit entitlement is reduced to enable recovery of the overpayment. The vast majority of Housing Benefit overpayment is due to claimant error.

Following a successful year of collection there has been a decrease of debt in this area, from £3.3m to £2.9m as of 31 March 2023.

3.8 **Libraries**

Library debt is made up of overdue fines and replacing lost or non-returned books.

3.9 **Adult Services**

Adult Services make charges for the following services:

- Contributions to residential accommodation
- Charges for non-residential services i.e. Home Care, Community Support, Day Services and transport to services
- Charges to other local authorities
- Charges to National Health Service

As of 31 March 2023, the level of debt was £8,238,037, which is an increase of £2.658m compared to this time last year. The main driver of the increased debt level is the increased rates paid to providers, which are - subject to means testing - passed onto the service user.

Of this debt, £2.951m (36%) is debt deferred against property and £2.580m (31%) is under 30 days old, which includes sums owed by the National Health Service or other local authorities.

Of the remaining £2.736m (33%), the majority has been overdue for greater than one year and in some cases, the customer ID reflects that the debt is now charged to the service users' estate. This poses significant risk to recovery as it is unsecured. This has been reflected by an appropriate increase in the Bad Debt provision specifically earmarked for this Service area.

Whilst social care debt needs to be managed in a sensitive manner, considering the potential vulnerability of the service user, this has been highlighted as an area for improvement. A review of working practices for this debt area is to be conducted with a view to maximising collection in the new financial year.

3.10 Parking

The recovery of unpaid Penalty Charge Notices is undertaken by a semi-judicial process under the current Traffic Management Act 2004.

From 1 April 2022 to 31 March 2023 a total of 62,005 Penalty Charge Notices (PCNs) have been issued identifying a projected income of £1,867,365. It should be noted that PCNs are issued at a higher rate and lower rate (£70.00 and £50.00 respectively) depending on the seriousness of the parking contravention. PCNs may be paid at a discounted rate of 50% of the charge if paid within 14 days of the date of issue.

This value is continuously being amended as payments are received and it should be recognised that payments made at the 50% discount amount will reduce the projected income level. Historically, 75% of paid PCN's are paid at the discounted payment.

The value of cancelled notices for the period 1 April 2022 to 31 March 2023 is £213,123 and cases written off where no vehicle owner has been identified totals £112,456.

Note: "In parking enforcement process, only PCNs that have been registered as an unpaid debt at the Traffic Enforcement Centre are classed as being at debt stage."

3.11 Miscellaneous Income

This will include a range of services that the Council will charge for including such areas as rental income on commercial properties, recharges to other bodies for services we have provided, and recovering overpaid salaries from staff that have left.

It is important to note that collection can vary month by month depending on the value of invoices raised as a reasonable period needs to be allowed for payment to be made.

There has been a significant increase in the write off position for this area for debts under £5k. This is due to the team carrying out a review of all outstanding Rent Deposit Loan invoices. It was agreed between the Director of Housing and Executive Director of Finance & Resources that any invoices that have been rigorously pursued through debt collection agencies would now be written off at that stage, as court action has proven ineffective historically and costly, due to the nature of the debts. This has resulted in £310,835 being written off as uncollectable.

The end of year debt is circa £11.4m, compared to circa £12m last year. There has been a significant increase in Miscellaneous Income collectable debt, up from circa £40m last year to circa £57m this year, with circa £12m of this debt raised in March 2023. Of the £12m raised in March, one invoice covered £2.5m of this, which has been paid at the time of writing this report. A further £4m has been raised to various government bodies and represents little risk of not being received.

3.12 Housing

Under the management of South Essex Homes there are arrears of outstanding debt of Rent and Service Charges for housing tenants. Extensive recovery procedures are followed but if the debt is deemed to be irrecoverable then the cost of any write-offs for this category of debt is specifically charged to the Housing Revenue Account and not to Council Tax payers.

3.13 Debt Collection and Recovery Policy and Bad Debt Write-Off Status

The current debt position within each service area, as at the end of the financial year 2022/23 is summarised at **Appendix A**. The value of irrecoverable debt that has been written off during the 2022/23 financial year and the approval requested by Cabinet for debt recommended for write-off at this Cabinet meeting that is over £25,000 is represented at **Appendix B**.

The current Debt Collection and Recovery Policy was approved in November 2017, at this time delegation was given to the Executive Director (Finance & Resources) to update the values and level of write-off that can be written off by various designated officers with the Council. Although the Council's existing policy remains robust it is suggested that a refresh is undertaken, and any proposed changes are brought back for consideration and approval by Cabinet in September when the first debt management position for 2023/24 will be reported. The current policy is attached at **Appendix C**.

Write off approval levels currently in place are shown in the tables below, which are in accordance with the latest Financial Procedure rules set out in the Constitution and the latest corporate debt recovery policy.

Debt Type: Accounts Receivable/Adult Services/ Housing and Council Tax Benefit	
Designation	Amount
Assistant Manager	under £5,000
Manager	Up to £10,000
Executive Director (Finance & Resources)	Between £10,000 and £25,000
Cabinet	£25,000 and above

Debt Type: NNDR (National Non Domestic Rates)	
Designation	Amount
Senior Officer	Up to £2,000
Team Leader	Up to £5,000
Manager	Up to £10,000
Executive Director (Finance & Resources)	Between £10,000 and £25,000
Cabinet	£25,000 and above

Debt Type: Parking	
Designation	Amount
Team Leader	Up to £5,000
Head of Parking	Up to £10,000
Jointly - Head of Parking and Executive Director (Finance & Resources)	Between £10,000 and £25,000
Cabinet	£25,000 and above

South Essex Homes, as managing agent, submit proposed write-offs to the Council, following which the following approval levels are exercised.

Debt Type: Housing Rents and Service Charges	
Designation	Amount
Jointly - Head of Housing Service and Executive Director (Finance & Resources)	Under £25,000
Cabinet	£25,000 and above

4. Reasons for Decisions

- 4.1. Debt collection is conducted independently by each department in accordance with the Council's Debt Collection and Recovery Policy to ensure a fair and consistent approach is applied to each case, and to maximise collection for the Council.
- 4.2. Each write-off is considered on an individual basis to assess the viability of collection and via the Council's Debt Collection and Recovery Policy to ensure a standard consistent approach.

5. Other Options

- 5.1. This is a report notifying members of the current position of the Council's debt and related write offs, and therefore there are no other options.

6. Financial Implications

- 6.1 Debts that are written off will have been provided for within the Council's bad debt provision and as such there should be no specific additional financial implications for the Council. However, it is possible that unforeseen and unplanned additional write offs occur, which could lead to the value of debts written off in any year exceeding the bad debt provision.

Where there is a potential for this to happen, this report will act as an early warning system and will enable additional control measures to be agreed and undertaken to either bring the situation back under control, or to make appropriate adjustments to the bad debt provision.

Relevant service areas are aware that they will have to bear the full cost of the value of debts that are written off from within their service's budget.

The Council's bad debt provision is calculated according to the type of debt using and agreed formulae. Exceptions can be made on a case-by-case basis by Finance Officers applying their professional judgement considering specific service knowledge. The proposed arrangements for each debt type are reviewed annually, and the approach is agreed with the Council's external auditors.

For General Fund debt the following percentages are used to calculate the value of provisions for various types of debt

Type of debt	Age of debt in months						
	<1	1-2	2-3	3-4	4-6	6-12	>12
Sundry Debt	0%	10%	10%	50%	50%	90%	90%
Adult Social Care	0%	10%	10%	50%	50%	90%	100%
Commercial Rents	0%	10%	15%	25%	50%	70%	90%

Where there is an active payment plan in place no bad debt provision is made.

Provisions for bad debt associated with Council Tax or NNDR are calculated as part of the Collection Fund accounting arrangements and apportioned between Southend-on-Sea City Council as the billing authority and preceptors. These calculations follow a similar formulaic approach for bad debt provision over the last 23 years. The approach and calculations are also shared with the Council's external auditors each year.

Provisions for bad debt associated with the Housing Revenue Account follow specific recommended guidelines. The Council follows this approach, and the overall bad debt provision is calculated on this basis.

7. Legal Implications

- 7.1 If there are debts to be written off that exceed the level at which officers have delegated powers to deal with the matter, authorisation is required from Cabinet.

8. Carbon Impact

- 8.1. No carbon impact implications.

9. Equalities

- 9.1 Debt Collection is managed through the Council's Debt Collection and Recovery Policy and is based on an approach of "Can't Pay Won't Pay". Each write-off is considered on an individual basis through a standard consistent best practice approach.

10. Consultation

- 10.1. No consultation required for the write off of debt.

11. Appendices

- 11.1. Appendix A: Debt Management Position 31.03.2023
Appendix B: Write Offs 31.03.2023
Appendix C: Debt Collection and Recovery Policy