

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

Meeting: Cabinet

Date: 18 September 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 July 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 July 2023;
- Obtain approval for the write off of irrecoverable debts that are over £25,000.

2. Recommendations

It is recommended that Cabinet:

- 2.1 Notes the finalised outstanding debt position on 31 July 2023 and the position of debts written off to 31 July 2023 as set out in **Appendices A & B**.
- 2.2 Notes that no write offs exceeding £25,000 need to be considered for approval as part of this report, as shown in **Appendix B**.

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 first report for the financial year 2023/24.

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

£119.9m of Council Tax is due to be collected in 2023/24, with a year-end collection target of 97.5%. The Council to date has collected a total of £42.9m, with a percentage collection of 35.8% achieved. This is currently £135k less than the target profile for this period of the year but does not present a risk to the overall end of year collection, with the expectation that this will either be achieved or exceeded.

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 July 2023
1 April 2019 - 31 March 2020	97.5%	99.1%
1 April 2020 - 31 March 2021	96.7%	99.0%
1 April 2021 - 31 March 2022	97.4%	98.5%
1 April 2022 - 31 March 2023	97.5%	98.1%

The team continue to collect debts outside of this financial year and have to date had a positive collection of £1.1m within the first reporting period, meaning 10.1% of all debt held has been collected.

The previous report referred to the Council’s plans to commence a review later this year in connection to the large sum of older debts held to ensure all debts that remain on account are recoverable. This remains a priority of the team, and work will hopefully commence in this area in the upcoming months, after the large court sessions have been reviewed.

3.6 Non-Domestic Rates (Business Rates)

£39.5m of Non-Domestic Rate is due to be collected in 2023/24, with a collection target of 98.5%. The Council to date has collected a total of £15.8m, with a percentage collection of 40.1% achieved. This is currently £325k higher than the target profile for this period of the year therefore presents an extremely positive start to the year, with no current risk to the end-of-year collection.

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 July 2023
1 April 2019 - 31 March 2020	98.3%	99.9%
1 April 2020 - 31 March 2021	90.6%	99.9%
1 April 2021 - 31 March 2022	96.3%	99.6%
1 April 2022 - 31 March 2023	98.7%	99.8%

The team continue to collect debts outside of this financial year and have to date had a positive collection of £380k within the first reporting period, meaning 22.4% of all debt held has been collected.

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.

Collection during the reporting period is comparable to the prior year, and as a result there has been a decrease of debt in this area, from £4.5m to £4.2m as of 31 July 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 July 2023, the level of debt was £7.438m, which is an increase of £1.937m 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, £2.543m (34%) is debt deferred against property and £1.692m (23%) is under 30 days old, which includes sums owed by the National Health Service or other local authorities.

Of the remaining £3.203m (43%), 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 currently underway with the intended outcome of a centralised debt management team for the Council with a view to maximising collection in this area for both current and future years.

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 2023 to 31 July 2023, a total of 24,467 Penalty Charge Notices (PCNs) have been issued identifying a projected income of £722,395. 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 2023 to 31 July 2023 is £85,094 and cases written off where no vehicle owner has been identified totals £8,846.

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 due to high value debt agreed for write off in the previous quarters report.

Total debt outstanding of £4.831m compared to £8.127m at the same time last year, a reduction of £3.296m. Of which, £700K is owed by 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 Write-Off Levels**

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 was approved at the last Debt Management report to Cabinet that a refresh is undertaken as part of the transformation review for the service and any proposed changes are brought back for consideration and approval by Cabinet. It is intended that this will now be for

the January cabinet cycle to enable the refreshed policy to align with the outcomes of the transformation review including automation of processes and procedures.

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 Corporate Debt Management 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 Corporate Debt Management 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 a Corporate Debt Management 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 31.07.2023
Appendix B: Write Offs 31.07.2023