

Subject: ANNUAL DEBT COLLECTION REPORT FOR EAST KENT SERVICES (MANAGED BY CIVICA UK LIMITED)

Meeting and Date: Governance Committee – 26 November 2020

Report of: Mike Davis, Strategic Director (Corporate Resources)

Portfolio Holder: Cllr Chris Vinson, Portfolio Holder for Finance, Governance, and Digital

Decision Type: Non Key

Classification: Unrestricted – previously published as restricted

Purpose of the report: To advise Members of the value of income collected and write offs in 2019/20.

Recommendation: Members are asked to note:

- a) The value of income collected and write-offs for each type of income, as set out in the report below;
- b) the generally high collection rates;
- c) the aged debt profile;

Summary

1. DDC's constitution requires reports of write-offs to be presented to Members periodically by the s151 Officer. This report from the Director of Finance, Housing and Community is produced on an annual basis and provides Members with an overview of the debt and write-off position for debts managed by Civica UK Ltd.
2. It is the s151 Officer's view that, rather than provide details, in a committee report, of all the individual write-offs, it is better to provide Members with an overview covering:
 - the overall debt position and trends
 - the collection rates
 - bad debt provisions
 - the overall level of write-offs proposed; and
 - any learning points or areas where improvements can be made to further increase collection rates.
3. Specific individual debts and write-offs will only be reported to Members where they are of special significance to the council. This could arise due to factors such as a sufficiently high value which may have financial implications for the council, or if they relate to parties with a close relationship with the council. In these circumstances any reporting will respect the privacy of the debtor as well as the interests of the council, and so if any such reports to Members are required, they will be made on a suitably confidential basis.
4. The most important aspects of debt collection are that:
 - All invoices due are raised;
 - All invoices raised are due; and
 - The collection rate is as high as possible.
5. The first two points are generally addressed through normal operations and checked during audits of specific service areas. Once a debt is raised then the council seeks to

collect all debts due and continues collection after the end of the year to which the debt relates. This results in the generally high collection rates.

6. This report deals with a number of complex areas and provides one comprehensive report that brings together the work of DDC and Civica UK Ltd. The format and content of this report was approved by Governance Committee in June 2014.
7. The main points to note in this year's report are:
 - The overall property charge (and therefore the amount to be collected) has increased from 2018-19 to 2019-20 (see Annex 2). However, the increase in charge (6.5%) has been greater than the increase in collection, leading to an overall increase in year end balances when compared with 2018-19 year end (of current year debt) from £1.57m to £1.98.
 - In year Business Rates collection is improved with in year collection rates increasing from 98.21% in 2018/19 to 99.20% in 2019/20.
 - The value of outstanding housing benefit overpayments has reduced in comparison to significant increases in recent years
8. The rest of this report sets out:
 - An overview of types of debt, debt levels, funding, DDC share and responsibility.
 - An explanation of the main terms and concepts - Income, Debts, Recovery Stages, Bad Debt Provision, Write-offs and Controls
 - The arrangements for the collection of debt.
 - The arrangements for managing write-offs; and
 - A summary of the position for each debt category.

Overview of types of debt, debt levels, funding, DDC share and responsibility

9. The main classes of debt collected by EKS (Civica) are:

Class of Debt	Indicative Annual Amount Billed	Ultimate Collection Rate (1)	Debit Balance at 31 st March 2020 ¹	Bad Debt Provision at 31 st March 2020	Fund	DDC % Share
Council Tax	£79.67m+	99%	£6,439k	£700k	Collection Fund	10.3%
Business Rates	£44.1m +	99%	£2,632k	£841k	Collection Fund	40%
Sundry Debtors (2)	£15m	99%	£2,684k	£857k	General Fund	100%
Housing Benefit Overpayment recovery	N/A	N/A	£2,488k	£1,792	General Fund	(3)

1. Debt isn't always collected "in-year". The ultimate collection rate indicates how much of all debt is finally collected, based on current performance. As the rate will vary slightly over time, this figure is not precise, but gives a good indication of current performance.

¹ The total debit balances does not include any prepayments or credit balances.

2. "Non recurrent" or one-off invoices for a wide range of services and charges. In addition, this also includes recharges of shared services, recovery of government grants etc, so it is not purely "income". The collection rate quoted is net of some write-offs.
3. DDC separately receives 40% subsidy from Government for housing benefit overpayments where they arise from claimant errors. These constitute the bulk of the overpayments. Therefore if at least 60% of the debt raised is recovered, then there is no loss to DDC. Current recovery rates are 131.04% (not including the 40% subsidy element).

Income, Debts, Recovery Stages, Bad Debt Provision, Write-offs, Controls, and the Single System Implementation

10. The council collects a large amount of income, much of which (Council Tax and Business rates) is not retained by the council. Due to the high value of income collected, even with the high collection rates, the balance which is unrecoverable and which is written off can still be a significant figure. This section has been produced to assist Members and to provide the context for these processes.
11. Outstanding debt and write-offs arise within the overall context of :
 - the income being raised;
 - the stages of income recovery and the overall collection rates;
 - the requirement to provide a bad debt provision;
 - write-offs;
 - the controls in place
12. An explanation of these terms and processes is provided in Appendix 1.

The arrangements for the collection of debt

13. Council Tax, Business Rates, Housing Benefit Overpayments and Sundry Debt is collected by Civica UK Ltd
14. Enforcement of debts through the Courts, deductions from benefits, attachment of earnings, direct earnings attachments and the use of enforcement agents all have to comply with the prevailing regulations and legislation. The Council Tax base shows an increase this year and Civica, as at 31 March 2020, collect from 53,442 households, and 4,136 Business Rates accounts.
15. In accordance with the constitution, Civica have an agreed debt write-off policy (Income Management Policy).

The arrangements for managing write-offs

16. The volume and value of income and debts collected by the council, either on its own behalf, or on the behalf of others, is significant. The overall collection rates are high and the rates of write-off are low.
17. With regard to write-offs:
 - These are managed on a day to day basis by Civica. Write-offs are only referred to DDC during the year where they are significant in value and have financial implications for the council, or if they relate to parties with a close relationship with the council.

- Internal Audit will periodically review write-offs as part of the audit programme to ensure that they have been properly approved within Civica and that significant write-offs have been reported to the S151 officer.

Council Tax

18. The council raises around £79m annually in Council Tax. “In year” collection rates are 97 – 98% with the ultimate collection rate exceeding 99%. Recovery of previous years’ debt continues in future financial years and payments are allocated to the year the debt relates to. Council Tax debt written off during 2019/20 was £188,928.28 (£195,801.30 in 2018/19).
19. The Accelerated Recovery Team (ART) has been tasked with the collection of previous years arrears and throughout 2019/20 has made a significant impact on collection. Some highlights are as follows:

As at 31 March 2020, ART has:

- collected a total of £308,357 in previous years arrears
- have a total of £2,638,070.62 being actively recovered by ART
- have £131,578.23 on arrangement within ART

20. The aged debt that has been recorded has increased year on year, however, proactive action is being taken to recover historic arrears through ART.
21. A more detailed analysis of the debt is provided at Appendix 2.
22. There were no write offs for Council Tax over £10,000 for 2019/2020.

Business Rates

23. The council raises around £44m annually in Business Rates. “In year” collection rates for previous years are over 98%, the final collection rate for 2019/20 was 99.20%. Recovery for previous year’s debt continues to be recovered in the following financial year and payments are allocated to the year the debt relates to.
24. Write offs in 2019/20 totalled £1,948.59 over 10 accounts. In comparison, the write off figure for 2018/19 totalled £364,763.25. There are a number of outstanding write offs from 2019/20, that have not yet been actioned on the system. Therefore, the write offs for 2020/21 are likely to be higher than standard.
25. In 2019/20 there were no write offs above £10k.

Sundry Debtors

26. The Council raises £15m in sundry debts per year, from sources such as:
 - Rent for commercial properties
 - Grants
 - Recharges for partnership working
 - Pest control services
 - Shared service recharges, government grants etc.

27. More information on the sources of income is provided in the annual fees and charges report.
28. The year-end balance for 2019/20 was £2,683k.
29. The invoices are raised throughout the year and so the year-end balance is a mix of older debts, and debts which have just been raised, and may even not yet be due for payment. For example, of the £2,683k outstanding £2,334k (87.00%) is less than 60 days old.
30. Those debts which are older than 90 days can include invoices which are subject to longer term repayment plans. Overall ultimate collection rates are circa 99%. Write-offs processed in 2019/20 total £94,367.72 (2018/19 total £65,813.04)

Write Off Reason	Write off Number	Write Off Value
Bankruptcy/Insolvency	5	-£2,864.69
Deceased	1	-£158.95
Discretionary – Recovery Exhausted	80	-£81,867.82
Gone Without Trace	21	-£8,624.83
Uneconomical	38	-£851.43
Totals	145	-£94,367.72

In 2019/20 one case was written off over £10k. A summary is as follows:

52000 - £21,233.49 for charges related to the rental of a DDC commercial property. The debt relates to 2018. The customer took on the lease but did not make any payments towards the rent. The customer did not take up occupation within the property. The case was referred to the DDC legal Team and Property Services Team and appropriate action was taken to evict the tenant from the property in 2018. The deposit was used to reduce the debt. Property Services took the decision to take no further action on the debt due to the company being based abroad and the difficulty in taking legal action on companies not based in the UK. The prospect of receiving payment was minimal compared to the cost of taking further recovery action.

Housing Benefit Overpayments

31. Housing Benefits overpayments is a complicated area. The bulk of overpayments are classified as being due to claimant fault, where they have provided incorrect information or not advised of a change in circumstances. Where this happens, the government meet the first 40% of the costs of the overpayment. In addition, the council is able to seek full recovery from the claimant. Not including the 40% which is subsidised by the government the 2019/20, the recovery rate was 122.84%. However; recovery of an overpayment will often span financial years as described below.
32. Where overpayments are identified they may have arisen over more than one year and may be of a significant value. Where benefit is still in payment, then recovery is achieved via benefit deductions at rates set by government and there is no discretion to increase the recovery rate. This can take more than one year in many cases. As the roll out of Universal Credit gathers pace, DDC will lose this method of recovery because Housing Benefit entitlement may stop. However, in some cases it may be possible to recover the overpayment from a customers Universal Credit entitlement. This could be at a significantly reduced rate and will represent a future challenge.

33. Where the claimant is no longer in receipt of benefits, an invoice will be raised. A payment plan may be agreed or other action taken such as deductions from earnings (Direct Earnings Attachment) or a request to the Department for Work and Pensions (DWP) to deduct from a state benefit or pension.

34. The position for 2019/20 is summarised below

Housing Benefit overpayment (OP) Notes	OPs Identified (1)	OPs recovered from deductions from on-going benefit in the year (2)	OPs invoiced to a debtor as recovery because deductions not possible (3)	OPs recovered from invoiced OPs (4)	Total OPs outstanding at year end (5)
2019/20	£671k	£307k	£476k	£518k	£2,488k

Notes:

- (1) This shows the overpayments arising in the year.
- (2) The overpayments recovered from benefits in the year will be for those overpayments made in the current year, and in previous years, that are gradually being recovered from benefits. For this to happen the claimant must still be in receipt of benefits. If a claimant moves off benefit an invoice would be raised for the remainder, and if necessary, a payment plan agreed.
- (3) These are the invoices raised in the year.
- (4) Overpayments recovered will relate to current and previous year invoices, the majority of which will be on a payment plan.
- (5) This is the total outstanding at the year end. As a matter of prudence local authorities make a high level of bad debt provision for housing benefit overpayments. The balance reduced by over £360k in year compared to significant increases in recent years

35. In 2019/20 £65,822.11 in housing benefit overpayment (2018/19 was £99,045.49) was written off for the following reasons:

Write Off Reason	Write off Number	Write Off Value
Bankruptcy/Insolvency	42	£54,581.69
Deceased	10	£2,722.56
Discretionary – Recovery exhausted	124	£8,279.78
Gone Without Trace	0	£0.00
Uneconomical	60	£238.08
Totals	236	£65,822.11

- In 2019/20 there were no write offs above £10k.

Corporate Implications

36. Comment from the Strategic Director of Corporate Resources: The Director and Accountant has been consulted on the report and has no further comments to add. (LS)

37. Comment from the Solicitor to the council:
38. Comment from the Equalities Officer: This report does not specifically highlight any equalities implications however, in discharging their responsibilities members are required to comply with the public sector equality duty as set out in section 149 of the Equality Act 2010 <http://www.legislation.gov.uk/ukpga/2010/15>.

Appendices

- Appendix 1 - Debts, recovery stages, bad debt provision, write-offs
- Appendix 2 – Council Tax Analysis (Civica)
- Appendix 3 – Business Rates Analysis (Civica)

Background Papers

EKS Income Management Policy

Contact Officers:

Mike Davis, Strategic Director (Corporate Resources)

Income, Debts, Recovery Stages, Bad Debt Provision, Write-offs and Controls

Income

- Income is posted to the Council's revenue accounts as soon as invoices are raised.
- Collection of the debt is simply about converting the amount owed on the balance sheet, into cash received.
- Bad debt provision is made to provide for the proportion of debt that is not expected to be collected.
- Bad debt provision is treated as "expenditure", so it reduces the net income.

Debts

Debts arise for a number of reasons including taxes such as the Council Tax and Business Rates, charges for work, services or goods provided, and recovery of overpayment. When debts are raised they appear, in aggregate, as a debtor, which is an asset on the Council's balance sheet.

When debts are paid, the total debtor goes down and the amount of cash held by the Council goes up.

Some income streams, such as parking fees, are cash based and are paid at the point of service delivery. These will not generally be included in the total debt income.

Recovery Stages

The typical stages in recovering a debt are:

- debt raised and invoice despatched
- first reminder is sent
- further reminder after 7 days
- legal action, which may involve:
 - i. apply for a summons
 - ii. liability order issued by the Magistrates Court
 - iii. Recovery via attachment to a person's earnings or benefits or referral to the Enforcements Agents (previously known as Bailiffs)

Bad Debt Provision

Bad debt provision is the means by which we adjust the balance sheet in recognition of the fact that, however good we are at collecting debt, we will never achieve 100%, and so we have to allow for some shortfall. The provision is reviewed each year to reflect the level and age of the debt portfolio and is charged to the cost of services as part of the closure of accounts process.

When a debt is written off, we reduce the value of the debtor on the balance sheet, but we can also usually reduce the bad debt provision. So provided we have made a prudent bad debt provision, the actual write-off is an accounting process and does not materially change the Council's overall position.

The calculation of the bad debt provision is undertaken on an annual basis and is based mainly on the age of the debts, on the basis that older debts are harder to collect and so the level of write-off is assumed to be higher for older debts. Adjustments are also made for some significant individual debts, particularly those which are of high value. As explained below, the cost to the council arises when the bad debt provision is made. Provided this is done prudently, then the actual write-off has minimal additional impact.

Write-Offs

Writing off a debt does not mean that we are letting the debtor off - it reflects the point at which the debt is deemed irrecoverable. The debtor is not advised of the write-off, so if, at subsequent review, it is decided that the debt should not have been written off, it can easily be reinstated. Similarly, if we subsequently discover that we can recover the debt, then we will do so, regardless of whether we have written the debt off or not.

So at the point that a debt is deemed irrecoverable, writing it off simply means that

- we now consider it unrealistic to carry the debt as an asset on the balance sheet,
- there is no point in continuing active recovery action, and
- we will therefore remove the debt from the “active” debts on the ledger.

There are several reasons for writing off a debt. These include:

- bankruptcy – the debtor has no assets
- liquidation – the company has no assets
- deceased – the debts cannot be recovered from the persons estate, or it is inappropriate to do so
- gone without trace – we are unable to find the debtor
- uneconomic – the debt is too small to pursue through the courts

When a debt has been written off:

- The total “debts outstanding” is reduced, but so is the “bad debt provision”. The net effect on the balance sheet is usually minimal.
- The write-offs may vary significantly from year to year. This simply reflects when the writing-off is done, not fluctuations in recovery rates.
- It is better to process write-offs on a regular basis, but it does not have any impact on income actually collected.

Controls

Because writing off a debt will generally result in a cessation of recovery action, it is important that there are sufficient controls surrounding the process to safeguard against premature write-offs before all economic avenues have been exhausted, and to safeguard against preferential treatment being given to individual debtors.

This process is also subject to review by Internal Audit.

Council Tax Analysis (Civica)

The below chart shows the chargeable debt as at the 31 March each year, and the amount outstanding at March 2020.

Year	Total Council Tax Charged (31st March)	Net Amount outstanding at 31st March	"In-year" collection rate (actual)	Net Amount outstanding as at March 2020	Collection as of March 2020
2016/17	£67,625,667	£1,188,807	98.00%	£569,410	99.04%
2017/18	£70,668,323	£1,340,580	97.87%	£766,434	98.78%
2018/19	£74,776,729	£1,570,780	97.66%	1,086,509	98.38%
2019/20	£79,662,765	£1,984,400	97.23%	1,984,400	97.23%

Write Offs for 2019/20 for Council Tax

Type	Number of Cases	Amount
Bankrupt	88	£6,765.83
Benefit	81	£5,391.87
Batch write off (bulk small credit)	33	-£9.67
Deceased	21	£3,520.39
DRO (Debt Relief Order)	130	£40,883.31
IVA (Individual Voluntary Arrangements)	341	£108,476.95
Liquidation	11	£3,945.29
Gone away no trace	66	£13,154.00
Gone away no trace (over £500)	183	£6,092.64
Gone away no trace (credit)	11	-£132.98
Official error/Statute barred	2	£478.01
Uneconomical to collect (small balances)	209	£362.64
Total	1,176	£188,928.28

The highest number of accounts written off are the accounts that have been subject to IVA and DRO action.

Council Tax debt written off during 2019/20 was £188,928.28 and £195,801.30 in 2018/19.

Appendix 3

Business Rates Analysis (Civica)

The chart below shows the chargeable debt as at the 1st April each year, and the amount outstanding as per March 200.

Year	Total Business Rates Charged (31st March)	Net Amount outstanding at 31st March	"In-year" collection rate (actual) %	Net Amount outstanding as at March 2020	Collection as of March 2020. %
2016/17	35,174,509	405,301	98.85	238,300	99.32
2017/18	37,932,348	371,356	99.02	296,000	99.22
2018/19	42,517,931	761,288	98.21	350,864	99.19
2019/20	44,106,689	354,023	99.20	354,023	99.20

Due to changes that may occur during the year, in respect of revised valuations and appeals, many which go back to the last valuation list of 2010, figures can change throughout the year. The rateable value may change which could increase / decrease the collectable amount. The appeals that businesses can make, can vastly change the amount collected and the amount that needs to be refunded from the authority to the businesses. Once an account is amended it is possible that a large credit will need to be repaid.

Write off for Business Rates 2019-20

Type	Number of Cases	Amount
Insolvency/Dissolved	1	-4.26
Deceased	0	0
Discretion	0	0
Liquidation	2	1,502.00
No Forwarding Address	1	458.660
No forwarding address over £500	0	0
No forwarding address (Credit)	0	0
Uneconomical	6	-7.81