
Subject:	ANNUAL DEBT COLLECTION REPORT FOR EAST KENT SERVICES (managed by Civica UK Ltd)
Meeting and Date:	Governance Committee 28th September 2023
Report of:	Mike Davis, Strategic Director (Finance and Housing)
Portfolio Holder:	Councillor Sue Beer, Portfolio holder for Finance, Governance, and Climate Change
Decision Type:	Non Key
Classification:	Unrestricted

Purpose of the report: To advise Members of the value of income collected and write offs in 2022/23.

Recommendation: Members are asked to note:

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

1. Summary

- 1.1. DDC's constitution requires reports of write-offs to be presented to Members periodically by the Section 151 Officer. This report 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.
- 1.2. It is the Section 151 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.
- 1.3. 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.
- 1.4. 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.

- 1.5. 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.
- 1.6. 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.
- 1.7. The main points to note in this year's report are:
- The overall Council Tax property charge (and therefore the amount to be collected) has increased by 4.07% from 2021/22 to 2022/23 (see Appendix 2).
 - There has been an increase in Council Tax collection of 0.19%, leading to an overall reduction for in year, year end balances when compared with 2021/22 of £2.38m to £2.34m in 2022/23.
 - In year Business Rates collection is improved with in year collection rates increasing from 98.07% in 2021/22 to 98.38% in 2022/23.
 - The value of outstanding housing benefit overpayments has continued to reduce, following the pattern of recent years.
- 1.8. 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.

2. Overview of Types of Debt, Debt Levels, Funding, DDC Share and Responsibility

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

Class of Debt	Indicative Annual Amount Billed	Ultimate Collection Rate (a)	Debit Balance at 31st March 2023¹	Bad Debt Provision at 31st March 2023	Fund	DDC % Share
Council Tax	£92m	99%	£9,449k	£7,323k	Collection Fund	9.9%
Business Rates	£47m	99%	£2,289k	£671k	Collection Fund	40%
Sundry Debtors (b)	£18m	99%	£1,791k	£559k	General Fund	100%
Housing Benefit Overpayment recovery	N/A	N/A	£2,488k	£1,287k	General Fund	(c)

Notes:

- a. 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

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

slightly over time, this figure is not precise, but gives a good indication of current performance.

- b. These are “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. This figure also includes invoices that are not the responsibility of Civica UK Ltd to recover.
- c. 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 124.56% (not including the 40% subsidy element).

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

1.10. 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.

1.11. 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

1.12. An explanation of these terms and processes is provided in Appendix 1.

The arrangements for the collection of debt

1.13. Council Tax, Business Rates, Housing Benefit Overpayments and Sundry Debt is collected by Civica UK Ltd

1.14. 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 2023, collect from 54,939 households, and 4,246 Business Rates accounts.

1.15. In accordance with the constitution, Civica have an agreed debt write-off policy (Income Management Policy).

The arrangements for managing write-offs

1.16. 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.

1.17. 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. The most recent audit (2023) which looked at the write off process received a substantial assurance rating.

4. Council Tax

- 1.18. The Council raises around £91.8m annually in Council Tax. "In year" collection rates are 96 - 97% 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 2022/23 was £330,687.83 (£210,623.40 in 2021/22).
- 1.19. The team continue to prioritise collection of previous years arrears and throughout 2022/23 have made a significant impact on collection. As at 31 March 2023 for 2022/23:
- Collected a total of £163,935 in previous years arrears at post enforcement agent stage;
 - Have £146,789 on arrangement.
- 1.20. The aged debt that has been recorded has increased year on year, however, proactive action is being taken to recover historic arrears.
- 1.21. A more detailed analysis of the debt is provided at Appendix 2.
- 1.22. There were no write offs for Council Tax over £10,000 for 2022/23.

5. Business Rates

- 1.23. The Council raises around £46m annually in Business Rates. "In year" collection rates for previous years are over 98%, the final collection rate for 2022/23 was 98.38%. 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.
- 1.24. Write offs in 2022/23 totalled £557,224.95. In comparison, the figure for 2021/22 was a write back of £1.31. This was due to priority work undertaken on the numerous Covid Grants, etc. The write back resulted from the normal tidy up of penny credits sat on individual accounts. There were a number of outstanding write-offs from 2019/20, 2020/21 and 2021/22 that had not been actioned on the system, which accounts for the increase in the amount written off. Work is ongoing to review all outstanding arrears pre-2020/21, therefore the write offs for 2023/24 are likely to be higher than standard.
- 1.25. In 2022/23 there were 14 write offs above £10k.

Name	Property Address	Financial Years	Balance (£)	Reason for write off
Channel Training & Support Centre Ltd	Post Office, Charlton Green, Dover. CT16 1AA	2010-2013	170,810.55	Company dissolved 27/12/16 - director was involved in £1.5m fraud leading to imprisonment of the directors
B&W Sandwich Ltd	George & Dragon, 24 Fisher Street, Sandwich. CT13 9EJ	2018	10,130.44	Company dissolved 24/03/20. No assets to recover debt
Purogenix Limited in Administration	Purogenix Ltd and Puropack Ltd, Bldg 281, East Site Discovery Park, Ramsgate Road, Sandwich. CT13 9NJ	2017-2018	56,504.65	Company dissolved 27/02/20. No assets to recover debt
Media Leisure Ltd in CVL	Ocean Rooms, Queen Street, Deal. CT14 6EY	2016-2019	47,510.92	Company went into liquidation 09/09/19. No assets to recover debt
Heritage International Transport Ltd	Units 8,10,12 &14 Whitfield Court, White Cliffs Business Park, Honeywood Close, Whitfield, Dover. CT16 3PX	2019	20,895.72	Company went into liquidation 24/01/20. No assets to recover debt
The Fitness Rooms UK Ltd	The Weights Room & Boxing Fitness at 74-94 High Street, Dover. CT16 1AA and Pole Fitness & The Weights Room, at Charlton Green, Dover. CT16 1AA	2018-2019	25,644.88	Company went into liquidation 17/10/19. No assets to recover debt
Cata Limited	40-41 Biggin Street, Dover. CT16 1BU	2018-2019	16,612.30	Company dissolved 17/11/20. No assets to recover debt
Hancock's Restaurants Ltd	Unit 2, St James, St James Street, Dover. CT16 1QD	2018-2019	10,948.46	Company went into liquidation 13/05/19. No assets to recover debt

Name	Property Address	Financial Years	Balance (£)	Reason for write off
FY Motors Ltd	43 Biggin Street, Dover, CT16 1DB	2018-2019	13,928.34	Company dissolved 21/01/20. No assets to recover debt
Saturn Trading Ltd in CVL	Gnd & 1st Flr at Unit 5, 11-16 Biggin Street, Dover. CT16 1DD	2017	17,032.39	Company went into liquidation 15/02/19. No assets to recover debt
Alliance Trade & Distribution in liquidation	Puropack Ltd Purogenix Ltd, and Purolabs Ltd, Bldg 281, East Site Discovery Park, Ramsgate Road, Sandwich. CT13 9NJ	2019	37,979.02	Company went into liquidation 14/01/20. No assets to recover debt
Sole Trader	Public House, Deal	2018-2019	11,370.01	Customer went bankrupt 10/02/2022. No assets to recover debt
Bellrose Ltd	The Bellrose BB at, 18 East Cliff, Dover, Kent, CT16 1LU	2010-2017	12,281.38	Company dissolved 11/05/2020. No assets to recover debt
Aberdeen Standard Investments Ltd	Premier Fruits, Kedleston Road, Whitfield, Dover, CT16 3NX	2019-2022	35,997.85	Company dissolved 26/07/2022. No assets to recover debt

6. Sundry Debtors

1.26. The Council raises sundry invoices from sources such as:

- Rent for commercial properties,
- Grants,
- Recharges for partnership working,
- Pest control services,
- Shared service recharges, government grants etc.

1.27. More information on the sources of income is provided in the annual fees and charges report.

1.28. The year-end balance for 2022/23 was £1,791k.

1.29. 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 £1,791k outstanding £1,176k (65.66%) is less than 60 days old.

1.30. 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%.

1.31. Write-offs processed in 2022/23 total £28,148 (2021/221 total £37,944)

Write Off Reason	Number of Write Offs	Write Off Value
Bankruptcy/Insolvency	1	£915.00
Deceased	1	£165.44
Discretionary	53	£25,760.74
Gone Without Trace	2	£808.61
Uneconomical	24	£498.68
Total	81	£28,148.47

- In 2022/2023 there were no cases written off over £10k.

7. Housing Benefit Overpayments

1.32. 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 2022/2023 recovery rate was 124.56%. However; recovery of an overpayment will often span financial years as described below.

1.33. 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 customer's Universal Credit entitlement. This could be at a significantly reduced rate and will represent a future challenge.

1.34. 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.

1.35. The position for 2022/2023 is summarised below:

- £491k overpayments arising in the year.
- £174k overpayments recovered from benefits in the year 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.
- £313k invoices raised in the year, where recovery from benefits is not possible.
- £440k overpayments recovered relating to current and previous year invoices, the majority of which will be on a payment plan.

- £1,786k 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.

1.36. In 2022/23 £279.76 in housing benefit overpayment (2021/22 was £120,516.00) was written off for the following reasons:

Write Off Reason	Write off Number	Write Off Value
Debt Relief Order	0	£0.00
Deceased	26	£15,758.85
Discretionary (write back)	25	-£20,795.16
Gone Without Trace	0	£0.00
Insolvency	102	£5,442.20
Individual Voluntary Arrangements (IVA)	0	£0.00
Uneconomical (write back)	17	-£126.13
Total	170	£279.76

- In 2022/2023 there were no write offs above £10k.

8. Corporate Implications

1.37. Comment from the Section 151 Officer: The Head of Finance & Investment has been consulted on this report and has no further comments to add. (HL)

1.38. Comment from the Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make

9. Appendices

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

10. Background Papers

EKS Income Management Policy

Contact Officer:

James Kehoe, Benefits Manager, Civica

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 provisions are made to provide for the proportion of debt that is not expected to be collected.

Bad debt provisions are 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 overpayments. 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 31st March each year, and the amount outstanding at 31st March 2023.

Year	Total Council Tax charged each year (31st March)	Net amount outstanding each year (31st March)	'In - year' collection rate (actual)	Net amount outstanding as at 31 March 2023	Collection rate as at 31 March 2023
2019/20	£79,662,765	£1,984,400	97.23%	£1,024,829	98.57%
2020/21	£83,169,776	£2,297,138	96.87%	£1,234,527	98.31%
2021/22	£88,163,853	£2,378,488	96.97%	£1,726,547	97.80%
2022/23	£91,752,585	£2,342,107	97.16%	£2,342,107	97.16%

Write Offs for 2022/23 for Council Tax

Type	Number of Cases	Amount
Discretionary Hardship Relief (13A)	14	£23,248.49
Bankrupt	18	£7,565.00
Benefit (error in original assessment)	90	£2,520.70
Bulk write off / write back	52	- £3,855.80
Costs	3	£110.00
Deceased	251	£69,688.18
DRO (Debt Relief Order)	42	£18,527.34
EHR (Exceptional Hardship CTS)	3	£1,215.66
Insolvency	8	£1,343.09
IVA (Individual Voluntary Arrangements)	670	£180,116.07
Liquidation	15	£12,245.52
Gone away no trace	29	£12,851.06
Gone away no trace (over £500)	23	£8,093.80
Gone away no trace (credit)	38	- £6,992.47
Official error/Statute barred	4	£116.65
Uneconomical to collect (small balances)	229	£3,894.54
Total	1,489	£330,687.83

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

Council Tax debt written off during 2021/22 was £210,623.40 and £145,061.39 in 2020/21.

Business Rates Analysis (Civica)

The chart below shows the chargeable debt as at the 31st March each year, and the amount outstanding at 31st March 2023.

Year	Total Business Rates Charged (31st March)	Net Amount outstanding at 31st March	“In-year” collection rate (actual) %	Net Amount outstanding as at March 2023	Collection as of March 2023. %
2019/20	£44,106,689	£354,023	99.20	£174,060	99.60
2020/21	£32,378,571	£928,096	97.13	£107,541	99.66
2021/22	£40,581,272	£785,162	98.07	£329,928	99.04
2022/23	£42,352,965	£684,771	98.38	£684,771	98.38

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 2022-23

Type	Number of Cases	Amount £
Bankrupt	11	23,306.96
Deceased	3	1,755.42
Insolvency	36	216,639.19
Liquidation	78	322,678.56
Gone away no trace	2	337.07
Gone away no trace (over £500)	3	1,199.04
Gone away no trace (credit)	5	-8,445.77
Uneconomical to collect (small balances)	18	-254.52
Total	156	557,224.95

Business Rates debt written off during 2021/22 was -£1.31 and £669.62 in 2020/21. The figures are low due to the impact of Covid and the numerous grant and support schemes that were in place in those years.