

BABERGH DISTRICT COUNCIL

FROM: Head of Customer Services

REPORT NUMBER **G113**

TO: **OVERVIEW AND SCRUTINY
(STEWARDSHIP) COMMITTEE**

DATE OF MEETING **9 October 2007**

USE OF RESOURCES –RECOVERY OF ARREARS (COUNCIL TAX, NON DOMESTIC RATES, HOUSING RENTS AND HOUSING BENEFIT OVERPAYMENTS)

1. PURPOSE OF REPORT

- 1.1 The report reviews performance and the resource used in recovering arrears of Council Tax and Non Domestic Rate. Comment is also made on the recovery of Housing Rents and Housing Benefit overpayments.
- 1.2 It is proposed that Strategy Committee consider the cost of recovering arrears for Council Tax and Non Domestic Rate and set recovery targets which link to the Council’s Financial Strategy.

2. RECOMMENDATION

- 2.1 That the Head of Customer Services be requested to submit a report on the cost of recovering Council Tax and Non Domestic Rates arrears to the Strategy Committee.

The Committee is able to resolve this matter.

3. FINANCIAL IMPLICATIONS

- 3.1 Effective and efficient debt recovery is essential to support the Council’s Financial Strategy. Maintaining high collection rates for Council Tax, both for in year collection and the recovery of arrears reduces borrowing needs and costs. For Non Domestic Rate the Council has stewardship of a large amount of public funds and must show due diligence The Council in under increasing, and sustained pressure, to become more efficient and deliver ongoing savings.
- 3.2 In that environment it is important that resources are focussed where they will have the greatest effect. Adopting the best practice recommended by the Audit Commission in their use of resources assessment will over time increase the effectiveness of the Council’s recovery of outstanding debt and the use of resources in that process.

4. RISK MANAGEMENT

- 4.1 This report should be considered in the context of “financial, performance and risk management” (Risk 7 – Significant Business Risk Register).

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Insufficient attention is given to the recommendations and best practice identified in the Audit Commission’s use of resources assessment.	Low	Marginal	Recommendations are implemented as promptly as possible.

5. KEY INFORMATION

- 5.1 The Audit Commission has assessed as “Level 3” on its use of resources. To maintain that rating at the next assessment the Council needs to strengthen the arrangements for monitoring and managing the recovery of Council Tax, Non Domestic Rates, Housing Rents and Housing Benefit overpayments. In particular evaluating the effectiveness of its procedures and processes, the effectiveness of recovery actions; the associated costs and the cost of not recovering debt promptly.
- 5.2 A review of the Council’s arrangements for monitoring and managing the recovery of debt has been undertaken and has reached the following conclusions.
- 5.3 **Council Tax and Non Domestic Rate:** As the following table shows performance has steadily improved, regularly either reaching, or very close to top quartile.

Collection Rates at 31 st March	2003/04	2004/05	2005/06	2006/07	2007/08
Council Tax	98.53%	98.71%	98.80%	98.84%	99%*
Non Domestic Rate	98.86%	98.91%	98.95%	98.87%	99.1%*
*Estimated outcomes					

- 5.4 As a consequence arrears, on the basis of the estimated outturn for 2007/08, are running at about 1%. However although not previously reported to the Committee collection of arrears is monitored on a monthly basis by officers and follows the same trend as “in year” performance.

Collection Rates at 31 st March	2003/04	2004/05	2005/06	2006/07	2007/08
Council Tax (£'s)	947,440	504,712	394,842	347,742	282,557*
Non Domestic Rate (£'s)	424,026	147,350	116,923	77,023	121,273*
*Balance outstanding at 20 th September 2007.					

- 5.5 The resource used to achieve those outcomes, broadly speaking equates to 7.3 full time equivalent members of staff (FTE's) if the process of amending customer accounts and issuing revised bills is included. Issuing accurate bills promptly is key factor in achieving successful collection outcomes and accounts for 4.8 FTE's. Consequently in terms of arrears recovery 2.5 FTE's are specifically engaged on that activity.
- 5.6 Other staff also participate in the recovery process(e.g. front facing staff will resolve enquiries or negotiate payment arrangements) but without creating a heavy time recording bureaucracy is impossible to quantify.
- 5.7 Similarly allocating the cost of the software the Council the software for administrative purposes between administration and recovery can be nothing more than an arbitrary decision.
- 5.8 Evaluation of the methodology or stages of recovering debt using a sample of accounts over a 3 month period from April to June. Full details are shown in Appendix A. As you would expect it is the post bailiff processes that are the least successful and have the greatest overhead. Simply getting a case before the Magistrates requires detailed paperwork and research, often with very little chance of success.

5.9 The following table shows the overall position for Council Tax and Non Domestic Rate arrears as at the 20th September.

Year of Debt	Council Tax £	Provision for Bad Debt	Non Domestic Rates £	Provision for Bad Debt
1996/97	0	-	3,795	4674
1997/98	0	-	2,512	2,920
1998/99	0	-	849	1,676
1999/00	0		1475	1,740
2000/01	889	3,005	191	1,366
2001/02	16,100	19,475	5640	5,430
2002/03	26,395	29,650	1202	4,189
2003/04	44,287	30,093	10,804	9,230
2004/05	66,487	17,523	19,015	17,796
2005/06	99,476	27,189	43,382	41,078
2006/07	217,981	66,034	101,527	57,657

5.10 This is possibly the most important and informative aspect of the review.

- Although the Council's Debt Management Strategy & Policy is being followed on a case by case basis, no comprehensive picture of the cost of recovering those debts exists.
- Small amounts of debt remain outstanding prior to 2003/04 and relate to retrospective accounts adjustments at a later date or payment arrangements still to be completed. The balances remaining are below the provision for bad debt.
- For 2003/04 Council Tax although the concept of recovering the £14,000 required to reach to reach the bad debt provision is attractive, focussing effort there could potentially delay or prejudice recovery for 2004/05 onwards where substantial amounts remain to be collected.
- Non Domestic Rate is either already below or very close to, the bad debt provision for every year other than 2006/07 which is not unexpected. From past experience it would be unusual for arrears to be recovered in full during the following financial year.

5.11 Revised legislation concerning the use of bailiffs is likely to come into effect from April 2009. The Government have yet to finalise the legislation following a period of consultation but early indications are this is likely to involve an up front payment of £42 per case to a bailiff prior to any work being undertaken and also a requirement for any bailiff activity to be completed within 3 months of receiving an instruction.

5.12 At the current level of referrals to the Council's bailiffs this will involve a significant level of expenditure which can only be reduced by pre-bailiff checks by staff rather than issuing bulk instructions. It is therefore important that in the lead in to 2009/10 all action possible has been taken the level of arrears at that time is as low as possible.

5.13 It is proposed that a report be prepared for consideration by Strategy Committee on the 15th November setting out the cost of recovering Council Tax arrears for each year from 2000/01 onwards, and for Non Domestic Rate from 1996/97 onwards. In both cases after having allowed for all debts considered to be irrecoverable, and that targets are set to link with the Council's Financial Strategy.

- 5.14 **Housing Rents** has been excluded at this stage as a desktop review during March 2007 identified areas of weakness in the recovery process and that staffing levels could be reduced. As a result business process re-engineering is being used to improve performance and also to reduce the level of resource engaged on the processes involved. The work will shortly be complete at which point revised arrears recovery targets can be set. It is envisaged that around (2.5 FTE's) are required to support the new processes which is reduction on previous staffing levels.
- 5.15 The Committee already receives quarterly reports on existing targets for in year collection rates (which includes arrears) and the number of tenants more than 7 weeks in arrears with their rent.
- 5.16 **Housing Benefit** overpayment recovery is already measured against a set of targets by the Committee. This however a complex area of work because of the variation in the amount to be recovered during the course of each year and the opportunities for recovery that open up or close down as benefit claims move in or out of payment. More work is required on the recovery of Housing Benefit overpayments before more precise targets can be set which reflect the length of time debts have been outstanding. That is however reliant on some software amendments.
- 5.17 The Council's software suppliers are working, in response to requests from a number of authorities, to provide more comprehensive and practical aged debt analysis reports. It is not known as yet however when that work will be complete. At the present time around 1.5 (FTE's) are used to support the recovery process.

6. **APPENDICES**

Appendix A - Analysis of the effectiveness of recovery methodologies
Appendix B - Debt Management Strategy and Policy.

7. **BACKGROUND PAPERS REFERRED TO**

None.

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Effectiveness of debt recovery

Percentage of debt reduced during a 3 month period - April –July 2007.

Stages	Council Tax		
	April - July % reduction	Values	
		02/04/2007	02/07/2007
Bill	53.12%	£98,582.52	£46,211.69
Reminder	43.47%	£65,952.93	£37,286.30
Reminder 2	25.72%	£35,924.52	£26,684.70
Summons	29.42%	£157.39	£111.09
Liability order	43.86%	£79,153.94	£44,437.93
14 Day notice	27.59%	£90,361.66	£65,437.90
Attachment of earnings	47.27%	£37,014.54	£19,548.58
Attachment of earnings reminder	52.30%	£2,596.90	£1,238.92
Attachment of earnings revised balance	40.54%	£1,901.37	£1,130.49
Attachment of Benefit	16.56%	£27,800.83	£23,196.31
Bailiff	38.47%	£135,951.17	£83,653.48
Bailiff Return	11.45%	£19,416.56	£17,193.04
Bailiff Return Nulla Bonna	0.01%	£12,048.12	£12,046.58
Adjourned from a previous court	5.18%	£16,902.55	£16,027.03
Pre Committal	9.90%	£133,998.90	£120,733.23
Instalment cancellation notice	0.00%	£129.42	£129.42
Charging order	3.95%	£11,400.77	£10,950.77
Arrest Warrant no bail	0.00%	£2,476.78	£2,476.78
Overall Reduction	31.52%	£771,770.87	£528,494.24

Stages	Non Domestic Rate		
	April - July % reduction	Values	
		02/04/2007	02/07/2007
Bill	35.15%	£110,734.92	£71,807.29
Reminder	68.73%	£44,767.14	£44,767.14
Liability order	17.09%	£18,964.22	£15,723.39
7 Day notice	21.44%	£39,769.26	£31,241.14
Bailiff	61.85%	£14,751.00	£5,627.71
Bailiff Return	10.47%	£100,453.19	£89,936.22
Arrest Warrant with bail	0.00%	£2,882.00	£2,882.00
Overall Reduction	30.42%	£332,321.73	£261,984.89

Stages	HB Overpayments		
	April - July % reduction	Values	
		30/03/2007	06/07/2007
Invoice	19.30%	£109,595.82	£88,445.38
Reminder	11.89%	£56,248.18	£49,558.78
Reminder 2	17.31%	£17,473.29	£14,449.06
Enquiry / info request	37.55%	£35,916.00	£22,427.86
Attachment of Benefit Pre Court	19.93%	£9,182.86	£7,352.54
Collection Agency	22.59%	£8,181.66	£6,333.47
Overall Reduction	20.30%	£236,597.81	£188,567.09