

Name of meeting: Corporate Governance and Audit Committee

Date: 23 September 2020

Title of report: Annual report on bad debt write-offs, 2019-20

Purpose of report

Financial Procedure Rules require the Service Director Finance, to prepare an annual consolidated report on all debts written off annually, for consideration by the Corporate Governance and Audit Committee. This report details the debts written off in the financial year 2019-20.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	No
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports) ?	No
The Decision - Is it eligible for "call in" by Scrutiny?	"Not applicable"
Date signed off by Strategic Director & name	
Is it also signed off by the Service Director - Finance	Eamonn Croston – 8/9/2020
Is it also signed off by the Service Director – Legal, Governance and Commissioning	Julie Muscroft -10/9/2020
Cabinet member portfolio	Cllr Graham Turner

Electoral wards affected: None

Ward councillors consulted: None

Public or private: Public

1. Summary

- 1.1 The Chief Financial Officer has to prepare an annual consolidated report of all debts written off for consideration by the Corporate Governance and Audit Committee. This report includes summary detail on the Council's approach to debt recovery and a summary schedule of debts written-off over the past 12 months, at **Appendix A**.
- 1.2 The Council has a good record of taking strong recovery action to make sure that everyone who should pay, does. The write off figures within this report show how important it is for everyone to pay their share of the charges to help fund essential Council services and wherever possible payment by direct debit is encouraged and

promoted. Last year was a challenging year financially towards the end of the financial year COVID 19 as the global impact started to bite economically at a local level impact, this had an impact on customer's ability to make payments for outstanding debts to the Council. As a result of COVID, write offs are likely to continue to rise as the economy shrinks.

- 1.3 Overall, debts written-off in 2019-20 totalled £5.74m; as a percentage of debt raised in the year, is 1.16%. The previous year 2018-19, £5.9m was written off; equivalent to 1.24% of debt raised. In percentage terms, it is pleasing to note an improving trend is continuing. The equivalent write-offs in 2017-18 were £5.5m and the percentage was 1.31% of debt raised. It should be noted whilst write off in 2019-20 were actually less compared to 2018-19, the potential true impact of income collection recoverability as a result of COVID may start to become more apparent in future years depending on how the pandemic and the impact on the economy unfolds.

2. Information required to take a decision

- 2.1 Financial Procedure Rules authorise Directors to write off all individual bad debts subject to the approval of the Chief Financial Officer. A report on the details of all debts written off under delegated authority must be prepared and formally noted by the Director in consultation with the Cabinet Member. The Service Director - Finance must prepare an annual consolidated report of all debts written off for consideration by the Corporate Governance and Audit Committee.
- 2.2 **Appendix A** contains details of debts written off in 2019-20. The first table compares amounts written off in 2019-20 to those written off in 2018-19. The second table shows a detailed analysis of the reasons for write off in 2019-20. In both tables, the amount of debt raised in the financial year is shown as a guide - the amount written off in the year is not directly related to this as it is likely to include debts outstanding from previous years.
- 2.3 The figures for write off of Adult Social Care debt, Housing Benefit Overpayments recovery, Housing Revenue Account (HRA), Council Tax and Business Rates make up the top 5 areas for write off and demonstrate how important it is for everyone to pay their share of the charges to help fund essential Council services.
- 2.4 The write-offs for Adults relates to collection and recovery of adult social care charges. A key aim of the Adult Social Care Charging Policy is to ensure that where an adult is charged for care and support (including making a contribution to a personal budget following a financial assessment), that they are not charged more than they can reasonably afford and pay. Rigorous collection and recovery action is always taken using the legal powers available; however, due to the characteristics of the client group not all charges are recoverable. During 2019-20 there has been an continued increase in the recovery focus on Adult Social Care debt with a dedicated team working on improvements in debt collection. The team are also working closer with the more vulnerable customers and advice partners ensuring all the relevant help and advice is available to help customers who are struggling financially. This has resulted in a reduction in collectable debt being written off and higher collection of these debts. Examples of write offs include, not viable to pursue, and where the client has deceased etc.

- 2.5 The write offs for Finance & Transactional Services relate mainly to Housing Benefit Overpayment recovery. The write off percentage figure is relatively high because the households concerned are by definition the least able to pay, old non collectable debts are targeted for write off and high proportion are not viable to pursue. Recovery action is always pursued using all the recovery powers available for example deductions from ongoing benefit entitlement or direct attachments on welfare benefits; however, ability to pay is also a consideration. These debts will also become more difficult to collect in the future as Housing Benefit administration is transferred to the Department of Works and Pensions (DWP) as the housing credit element of Universal Credit.
- 2.6 Kirklees Neighbourhood Housing (KNH) manages the council house tenancies on the Council's behalf, and in accordance with the Council tenancy agreement, any costs incurred by the landlord, for which the tenant is deemed directly liable, the landlord will seek to recover, with the ultimate sanction of tenancy termination (eviction) in extreme cases. On average, this affects only a very small proportion of tenants each year. The HRA write-off figure of £0.46m includes approximately former tenant liable costs, also referred to as rechargeable repairs and for which there is an existing HRA bad debt provision set aside to cover. The Council currently has over 10,179 tenancies on direct debit equivalent to 46% of total tenancies, is increasing year on year.
- 2.7 Expenditure and income relating to the provision of landlord services is ring-fenced or 'self-financed' through the Council's Housing Revenue Account (HRA). The Council is the landlord for 22,229 Council properties, and the day-to-day management of these, including income collection and debt recovery, is undertaken on the Council's behalf by Kirklees Neighbourhood Housing (KNH), an arm's length management organisation.
- 2.8 The Council aims to maximise its collection and recovery of all Council Tax and Business Rates debts. The recovery process ensures that all accounts in arrears are chased through issuing reminders, summonses, obtaining liability orders through the Magistrates Court, if needed, which allow the Council to recover debts through using the Enforcement Agents (bailiffs), attachments to earnings or benefits, instigating insolvency proceedings, putting charging orders on the properties, or issuing committal to prison proceedings.
- 2.9 In 2019-20 officers have continued to undertake exercises to review the previous years' debts outstanding for both Council Tax and Business Rates and be realistic on what is collectable and what debts are not. Where accounts have been identified, with previous recovery action (some over a number of years) and no further action is viable to pursue or cost effective, the debts have been written off as unable to collect. In 2019-20 the increase in write offs was mainly due to significant write offs as a result of companies owning student properties going insolvent, whilst the Council has made a claim for debt owed, the Council Tax has been written off. This is due to the likelihood of any dividends being paid being low.
- 2.10 This will ensure that all collectable debts outstanding will be pursued through rigorous recovery action. Resources will be deployed to recover unpaid Council Tax or Business Rates quicker and more effectively once older debts that have been through the recovery process have been removed. Tighter processes and procedures continue to be put in place to maximise recovery of collectable debts earlier in the process. Also more emphasis has been placed on supporting vulnerable customers who are struggling financially through ensuring all the appropriate support is in place

to support and advise customers better, earlier in the recovery process. The anticipated collection levels over the fullness of time are 98.5%, which the service expects to eventually recover for Council Tax and Business Rates debts. Write offs however are likely to continue to rise as the economy shrinks due to the impact of COVID.

- 2.11 Payment by direct debit is encouraged and the Council currently has 116,789 charge payers paying by direct debit on Council Tax (approx. 71% of paying charge-payers). In the last 12 months this has increased by 742 new accounts set up for direct debit payments. The more direct debit payers the Council has, the better the recovery rate, allowing staff to concentrate on more difficult recovery cases outstanding.
- 2.12 Kirklees is the seventh largest Council in the country, so for the Yorkshire and Humber Area we will always be towards the top of any monetary list. The Council has 188,738 properties liable for Council Tax (£273.1 gross debit in 2019-20) and 16,102 properties for Business Rates (£142.7m gross debit in 2019-20). Whilst the Council Tax arrears increased in 2019-20 to £19m, the percentage compared to the overall debit (in year and arrears) was still approx. 0.07% due to the increase in the annual debit raised in 2019-20. Overall collection of the arrears is rising year on year, an example is the overall arrears for Council Tax has only risen by £0.2m compared to the annual debit increasing by approximately £50m.
- 2.13 Whilst all of the debts highlighted in the report have been formally written off in the accounts for 2019-20, this does not mean that the Council will not pursue this debt if new information comes to light and the prospect for recovering outstanding debts changes. The impact of COVID19 on customers financial circumstances will also be a factor to consider over the coming years.

3. Implications for the Council

This report provides summarised information on debts written-off over the previous 12 months. The overall income due in the year (Debit) to which the report's financial performance relates, supports the delivery of the following Council objectives and Priorities within available resources:

3.1 Working with People

The write off's have an impact on the Council's budget therefore bad debt provisions are factored into the estimated income from debts/charges raised throughout the year. The debts are from various services charging for either providing a service or for raising annual charges through legislation ie Council Tax, and Business Rates. The Council work with customers to ensure that any debts outstanding are recovered in accordance with the payment terms but if the customer is having financial problems these will be taken into consideration. In certain circumstances debts are written off as either not viable to pursue or on the grounds of hardship or vulnerability where appropriate. Consideration is given to any inequalities and poverty caused by charges raised, and where appropriate debts will be considered for write off.

3.2 Working with Partners

Not applicable

3.3 Place Based Working

Not Applicable

3.4 Climate Change and Air Quality

Not Applicable

3.5 Improving outcomes for children

Not Applicable

3.6 Other (eg Legal/Financial or Human Resources)

Financial

The amount of debt written off each year is factored into the Council's overall budget and appropriate provision is made to account for uncollectable debts raised.

4. Consultees and their opinions

None

5. Next steps

Corporate Governance and Audit Committee will be asked to note the summarised information set out in this report.

6. Officer recommendations and reasons

Corporate Governance and Audit Committee are recommended to note the information in the Appendix on bad debt write offs for 2019-20.

7. Cabinet portfolio holder recommendation

To note the contents of this report

8. Contact officer

Steve Bird, Head of Welfare & Exchequer Services, 01484 221000
Mark Stanley, Senior Manager, Welfare & Exchequer Services

9. Background Papers and History of Decisions

Accounts & Audit regulations 2015, Local Audit & Accountability Act 2014

10. Service Director responsible

Eamonn Croston. Service Director - Finance
01484 221000

APPENDIX A

Debit for year 2018/19	write offs during Apr18 - Mar19		Directorate	Debit for year 2019/20	write offs during Apr19 - Mar20	
£	£	%		£	£	%
43,225,262	1,409,698	3.26%	Adults Social Care	43,314,801	273,660	0.63%
3,964,256	7,546	0.19%	Learning & Early Support	5,989,587	1,095	0.02%
116852	0	0.00%	Child Protection & Family Support (Prev Family Support & Protection in 18-19)	118,074	0	0.00%
27,993,313	157,589	0.56%	Commercial Regulatory & Operational (no longer exists in 19-20)	0	0	0.00%
5,228,808	32,037	0.61%	Economy, Regeneration & Culture (No longer exists in 19-20)	0	0	0.00%
6,597,815	811,250	12.30%	Finance, IT & Transactional Services	745,841	291,139	39.03%
1,220,547	3,075	0.25%	Governance & Commissioning	1,251,547	0	0.00%
562,943	0	0.00%	Office of the Chief Executive (no longer exists 19-20)	0	0	0.00%
4,351,390	0	0.00%	Policy, Intelligence & Public Health (no longer exists in 19-20)	0	0	0.00%
1,056,430	0	0.00%	Integration, Access & Community Plus	1,773,628	0	0.00%
0	0	0.00%	Commissioning, Quality & Performance (new in19-20)	0	0	0.00%
0	0	0.00%	Growth & Housing (new in 19-20)	4,177,122	13,635	0.33%
0	0	0.00%	Economy & Skills (new in 19-20)	6,349,081	189,690	2.99%
0	0	0.00%	Environment (new in 19-20)	17,535,594	93,555	0.53%
0	0	0.00%	E&I Management (new in 19-20)	0	0	0.00%
0	0	0.00%	Strategy, Innovation & Planning	4,884,608	0	0.00%
0	0	0.00%	Public Health & People	4,914,068	38,635	0.79%
0	0	0.00%	HRA	2,582,764	46,005	1.78%
94,317,617	2,421,195	2.57%	General Fund Services	93,636,717	947,414	1.01%
79,590,304	784,112	0.99%	HRA (excl those on benefits)	80,570,786	463,820	0.58%
202,996,959	1,882,304	0.93%	Council Tax	214,810,316	3,040,106	1.42%
106,828,725	910,652	0.85%	Business Rates	106,587,054	1,289,880	1.21%
483,733,605	5,998,263	1.24%	Grand Total	495,604,872	5,741,220	1.16%

Directorates	*Debit for year 2019/20	write offs Apr19 - Mar20	%	Compassionate Grounds	Deceased	Liquidation/ Bankruptcy	No Goods/ Unemployed	Not Viable to Pursue	Unable to Trace	Statute Barred	Misc
Child Protection & Family Support	118,074	-	0.0%	-	-	-	-	-	-	-	-
Learning & Early Support	5,989,587	1,095	0.0%	-	-	-	-	1,095	-	-	-
Integration, Access & Community Plus	1,773,628	-	0.0%	-	-	-	-	-	-	-	-
Adults Social Care Operation	43,314,801	273,660	0.6%	25,013	137,528	-	-	73,048	12,788	25,282	0
Commissioning, Quality & Performance	-	-	0.0%	-	-	-	-	-	-	-	-
Growth & Hosuing	4,177,122	13,635	0.3%	-	-	-	-	12,128	115	1,621	-
Economy & Skills	6,349,081	189,690	3.0%	-	151	83,694	-	34,761	1,083	70,000	-
Environment	17,535,594	93,555	0.5%	-	386	46,854	-	42,229	3,193	893	-
E&I Management	-	-	0.0%	-	-	-	-	-	-	-	-
Strategy, Innovation & Planning	4,884,608	-	0.0%	-	-	-	-	-	-	-	-
Public Health & People	4,914,068	38,635	0.8%	-	-	5,287	-	25,065	8,283	-	-
Governance & Commissioning	1,251,547	-	0.0%	-	-	-	-	-	-	-	-
Finance*	745,841	291,139	39.0%	4,333	61,017	16,039	-	68,850	32,195	108,705	-
HRA	2,582,764	46,005	1.8%	-	166	1,023	-	15,781	1,022	28,013	-
General Fund Services	93,636,717	947,414	1.0%	29,346	199,247	152,896	-	272,958	58,451	234,515	0
HRA (excl those on benefits)	80,570,786	463,820	0.6%	6,832	63,009	89	-	369,944	20,126	301	3,518
Council Tax	214,810,316	3,040,106	1.4%	6,822	3,117	899,005	-	1,050,396	1,100,645	-	-
NNDR	106,587,054	1,289,880	1.2%	-	146	597,169	-	542,863	149,703	-	-
Grand Total	495,604,872	5,741,220	1.2%	29,356	259,285	1,649,159	-	2,236,161	1,328,925	234,816	3,518
* Finance figure includes value of invoices raised for outstanding debt in relation to Benefits											

