

Name of meeting: Corporate Governance and Audit Committee

Date: 30 September 2022

Title of report: Annual report on bad debt write-offs, 2021-22

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 2021-22.

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	Rachel Spencer - Henshall
Is it also signed off by the Service Director - Finance	Eamonn Croston
Is it also signed off by the Service Director – Legal, Governance and Commissioning	Julie Muscroft
Cabinet member portfolio	Cllr Paul Davies

Electoral wards affected: None

Ward councillors consulted: None

Public or private: Public

Has GDPR been considered: Yes, no personal data in the report.

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 in **Appendix A** and a summary schedule of debts written-off over the past 12 months, in **Appendix B**.

- 1.2 The Council has a good record of collecting income due, including a range of supportive measures to help bill payers who may be struggling to pay their bills, as part of a broader suite of income collection and recovery measures to ensure that everyone who should pay, does. The write off figures within this report underline 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 another challenging year financially due to the continued impact of COVID and the overall impact continues to have an impact economically through the local economy. This resulted in an increased number of customers having difficulties paying their bills. It is anticipated this will continue as the cost of living crisis plays out over the coming month/years. This will inevitably mean that there will be some element of suppressed bad debt, this will be debt that due to current circumstances will be harder to collect and will therefore take longer to recover moving forward. There will also be an element of this debt that will become irrecoverable in the future due to increased debts customers will face in the future.
- 1.3 Overall, debts written-off in 2021-22 totalled £3,188,230m; as a percentage of debt raised in the year, this is 0.61%. The previous year 2020-21, £2,989,470m was written off; equivalent to 0.63% of debt raised (the equivalent write offs in 2019-20 were £5,741,220m and the percentage was 1.16% of debt raised) The overall percentage written off has reduced year on year for the last two years. But it should be noted there is a high likelihood of more suppressed bad debt, which may get reflected in future years write offs, alongside some continued economic volatility depending on the pace of global, national, and local recovery from Covid.

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 2021-22. The first table compares amounts written off in 2021-22 to those written off in 2020-21. The second table in **Appendix B** shows a detailed analysis of the reasons for write off in 2021-22. 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 ongoing debts outstanding from previous years.
- 2.3 The figures for write offs of Adult Social Care debt, Housing Benefit Overpayments recovery, Housing Revenue Account (HRA), Business Rates and Council Tax make up the top 5 areas for write offs 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-off for Adults relates to the 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 contributing to a personal budget following a financial assessment), that they are not charged more than they can reasonably afford to pay. This is carried out using appropriate collection and recovery action and is always taken using the legal powers available; however, due to the

characteristics of the client group not all charges are recoverable. The debt recovery process has continued during and after the pandemic with a dedicated team continuing to work 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 more practical solutions to be offered in the collection of debts and writing off uncollectable historic debts, for this reason, there has been a slight increase in the value of outstanding debt during 2021/22. Examples of write offs include, not viable to pursue, and where the client has deceased etc.

2.5 The write offs for Finance 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, and have potentially impacted the most through the pandemic and with the increased cost of living. Old non collectable debts are targeted for write off and a high proportion of these are deemed 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 in the current climate 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 The council's housing stock is managed by the Income Management Team within its Homes & Neighbourhoods service area. In accordance with the Council Secure tenancy agreement, any charges for which the tenant is deemed directly liable, the landlord will seek to recover. In extreme cases where the rent due on a property is consistently not paid, and rent arrears continue to escalate, an application may be made for an order to take back possession of the property and evict a tenant from the premises (in 2020-21 there were no evictions and in 2021-22 there were 9 evictions for non-payment of rent). On average, this does only affect a very small proportion of tenants each year. 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 HRA write-off figure includes former tenant liable costs, also referred to as rechargeable repairs and for which there is an existing HRA bad debt provision set aside to account for unrecoverable debt. The Council currently has over 9,586 tenancies on direct debit, equivalent to 46.2% based on 20,746 tenanted properties the Council is landlord for and the day-to-day management of these (including income collection and debt recovery).

Homes and Neighbourhoods are part of the Northern Rent Benchmarking Group (NRBG) and these were comparisons for direct debit payers in 2021-22.

Housing Provider	% Customers Paying Rent By DD
Gateshead H.C	22.83%
Kirklees Council	44.46%
North Tyneside	24.48%
Sheffield City Council	44.76%
Together Housing	31.22%
Your Homes Newcastle	36.97%

- 2.7 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.
- 2.8 In 2021-22 the teams have been dealing with catching up after COVID with outstanding caseloads, as there has been a backlog of non-payers to pursue through the courts and take necessary recovery action against. Officers have continued to undertake exercises to review 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 several years) and no further action is viable or cost effective, the debts have been written off as unable to collect. The future economic recovery position is also very difficult to predict, with the current cost of living crisis so there will be debts that will either take longer to collect or will become debts the Council will have to decide if they are viable to collect. The teams will continue to offer support and where appropriate signpost customers to further support to ensure they are getting help financially or otherwise to ensure they are maximising their income. Vulnerable customers will be supported by the appropriate means.
- 2.9 The recovery action highlighted above will ensure that all collectable debts outstanding will be pursued through appropriate recovery action and support for the customer. Additional 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 have or are now struggling financially through ensuring all the appropriate support is in place to support and advise customers better, earlier in the recovery process. The current collection levels anticipated over the fullness of time which the service expects to eventually recover for Council Tax are 98.5%, and 97.4% Business Rates. These percentages reflect the increase in arrears last year. Write offs however are still likely to continue to rise as the economy feels the lasting impact of COVID and increases in the cost of living.
- 2.10 Payment by direct debit is encouraged and the Council currently has 129,337 charge payers paying by direct debit on Council Tax (approx. 77% of paying charge-payers). In the last 12 months this has increased by over 7,250 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.
- 2.11 Kirklees is the sixth largest Metropolitan Council in the country in relation to the net debit raised for Council Tax, so for the Yorkshire and Humber Area we will always be towards the top of any monetary list. The Council has 190,602 properties liable for Council Tax (£303.22m gross debit in 2021-22) and 16,102 properties for Business Rates (£145.71m gross debit in 2021-22). Whilst the Council Tax arrears increased in 2021-22 to £23.44m, the percentage compared to the overall net debit (in year and arrears £268.39m) was still approx. 0.01% due to the increase in the annual debit raised in 2021-22. Overall collection of the arrears is being maintained but with the rise of the debit raised the overall arrears figure increased by £2.21m in 2021-22.

The table below shows other LA's write offs to compare with Kirklees for 2021-22

Council Tax write offs 2021-22			
LA	net debit 21-22	write off	%
Oldham	£119.5m	£3.46m	2.90%
Bradford	£259m	£6.14m	2.37%
Wolverhampton	£133.74m	£1.47m	1.10%
Doncaster	£148.1m	£1.5m	1.01%
Stockport	£201.03m	£1.73m	0.86%
Leeds	£422.68m	£1.75m	0.75%
Kirklees	£233.87m	£1.75m	0.75%
Calderdale	£121.87m	£768k	0.63%
Leicester	£181.78m	£988k	0.63%
Rotherham	£141.29m	£622k	0.44%
Wakefield	£188.26m	£489k	0.26%
Sunderland	£126.5m	£294k	0.23%

2.12 Whilst all of the debts highlighted in the report have been formally written off in the accounts for 2021-22, 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.

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 Council's objectives and priorities within available resources:

3.1 Working with People

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

The Council is working closely with voluntary and community groups (ie foodbanks), and contracted partners ie CAB, Money Advice etc through the Local Welfare Provision Team (LWP) to support vulnerable households with income management, debt advice that will help support households pay their bills.

3.3 Other (eg Legal/Financial or Human Resources)

Financial

The write off's have an impact on the Council's budget therefore bad provisions are factored into the estimated income from debts/charges raised throughout the year.

With the current cost of living crisis being faced by many households the Council is committed to supporting vulnerable households as part of the ongoing recovery action, including referring customers onto its local welfare provision team for support, alongside a range of ongoing significant national government support measures for households (ie Housing Support Fund (HSF) and other support for our businesses. We also offer additional local support via the Benefits team and through the Council Tax Reduction Scheme or offering discretionary support with accrued debts.

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 Appendices on bad debt write offs for 2021-22.

7. Cabinet portfolio holder recommendation

To note the contents of this report

8. Contact officer

Sarah S Brown, Acting 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

Write Off Summary Comparison 20-21 to 21-22

*Debit For Year Apr 20 - Mar 21	Write Offs Apr 20 - Mar 21		Directorate	*Debit For Year Apr 21 - Mar 22	Write Offs Apr 21 - Mar 22	
£	£	%		£	£	%
<u>Children & Families</u>						
9,299,635	20,371	0.22%	Learning & Early Support	10,297,234	8,979	0.09%
172,554	4,558	2.64%	Child Protection & Family Support	173,792	3,088	1.78%
<u>Adults & Health</u>						
55,437,801	422,400	0.76%	Adults Social Care	62,345,462	284,845	0.46%
1,333,717	825	0.06%	Integration, Access & Community Plus Customers & Communities	1,821,285	-99	-0.01%
<u>Economy & Infrastructure</u>						
7,989,206	103,693	1.30%	Growth & Housing			0.00%
7,692,153	46,410	0.60%	Economy & Skills			0.00%
14,687,505	38,496	0.26%	Environment			0.00%
<u>Environment & Climate change</u>						
			Environmental Strategy & Climate Change	460,138	838	0.18%
			Highways & Streetscene	9,407,047	21,261	0.23%
			Culture & Visitor Economy	2,838,188	9,077	0.32%
<u>Regeneration & Growth</u>						
			Skills & Regeneration	16,354,140	90,178	0.55%
			Homes & Neighbourhoods	420,576	5,930	1.41%
<u>Corporate Strategy, Commissioning & Public Health</u>						
5,850,424	0	0.00%	Strategy & Innovation	1,051,329	0	0.00%
4,684,594	18,118	0.39%	Public Health & People	4,980,198	6,930	0.14%
1,651,303	0	0.00%	Governance & Commissioning	4,562,087	0	0.00%
2,596,126	243,049	9.36%	Finance	2,341,392	200,528	8.56%
			Former KNH Resources	1,306,789	0	0.00%
<u>Housing Revenue Account</u>						
500,251	26,408	5.28%	HRA	149,623	372	0.25%
111,895,269	924,328	0.83%	General Fund Services	118,509,280	631,927	0.53%
81,653,328	301,782	0.37%	HRA (excl those on benefits)	82,516,772	458,039	0.56%
218,552,116	1,662,339	0.76%	Council Tax	233,869,920	1,751,297	0.75%
59,564,692	101,021	0.17%	NNDR (Business Rates)	88,120,713	346,968	0.39%
471,665,405	2,989,470	0.63%	Grand Total	523,016,684	3,188,230	0.61%

<u>Write Off Summary 21-22</u>												
Directorate	*Debit For Year Apr 21 - Mar 22	Write Offs Apr 21 - Mar 22	%	Compassionate Grounds	Deceased (No Estate)	Liquidation/ Bankruptcy	Not Viable to Pursue	Unable to Trace	Statute Barred	Write Back - Credit Unclaimed	Misc	Total
Children & Families												
Learning & Early Support	10,297,234	8,979	0.09%	0	0	595	6,077	2,307	0	0	0	8,979
Child Protection & Family Support	173,792	3,088	1.78%	0	0	0	3,088	0	0	0	0	3,088
Adults & Health												
Adults Social Care	62,345,462	284,845	0.46%	31,897	135,514	0	107,660	0	0	-225	10,000	284,845
Customers and Communities	1,821,285	-99	-0.01%	0	0	0	-99	0	0	0	0	-99
Environment & Climate change												
Environmental Strategy & Climate Change	460,138	838	0.18%	0	0	340	325	172	0	0	0	838
Highways & Streetscene	9,407,047	21,261	0.23%	0	77	7,599	13,551	0	34	0	0	21,261
Culture & Visitor Economy	2,838,188	9,077	0.32%	0	0	104	8,717	0	256	0	0	9,077
Regeneration & Growth												
Skills & Regeneration	16,354,140	90,178	0.55%	0	3,482	24,560	54,856	3,034	4,247	0	0	90,178
Homes & Neighbourhoods	420,576	5,930	1.41%	0	0	0	5,930	0	0	0	0	5,930
Corporate Strategy, Commissioning & Public Health												
Strategy & Innovation	1,051,329	0	0.00%	0	0	0	0	0	0	0	0	0
Public Health & People	4,980,198	6,930	0.14%	454	0	0	5,942	0	534	0	0	6,930
Governance & Commissioning	4,562,087	0	0.00%	0	0	0	0	0	0	0	0	0
Finance	2,341,392	200,528	8.56%	7,297	75,156	13,360	16,176	10,089	78,449	0	0	200,528
Former KNH Resources	1,306,789	0	0.00%	0	0	0	0	0	0	0	0	0
Housing Revenue Account												
HRA	149,623	372	0.25%	0	0	0	372	0	0	0	0	372
General Fund Services	118,509,280	631,927	0.53%	39,648	214,229	46,559	222,594	15,602	83,520	-225	10,000	631,927
HRA (Excl those on benefits)	82,516,772	458,039	0.56%	8,810	128,024	11,672	288,844	14,559	0	0	6,130	458,039
Council Tax	233,869,920	1,751,297	0.75%	0	11,358	381,381	983,593	374,965	0	0	0	1,751,297
NNDR	88,120,713	346,968	0.39%	0	71	613,466	-334,881	68,312	0	0	0	346,968
Grand Total	523,016,684	3,188,230	0.61%	48,458	353,682	1,053,077	1,160,151	473,438	83,520	-225	16,130	3,188,230