
Report to **Clackmannanshire Council**

Date of Meeting: 28th June 2018

Subject: **Annual Review of Debtors 2017/2018**

Report by: **Head of Housing and Community Safety**

1.0 Purpose

- 1.1. To provide council with the annual update on income collection and to propose the 'write-off' of those debts which are deemed as irrecoverable or 'bad debts'.
- 1.2. The presentation of this report is a key milestone in the preparation of the council's draft financial statements which need to be approved by the end of June each year.

2.0 Recommendations

- 2.1. It is recommended that the council;
 - 2.1.1. Note the trends in income collection for 2017/18,
 - 2.1.2. Approve the proposed write-off £1,074,921 as per 6.2 (Appendix B),
 - 2.1.3. Note and comment as appropriate on the other matters raised in the report.

3.0 Background

- 3.1. Responsibility for the collection and recovery of income due to Clackmannanshire Council principally lies within the Revenues Service. All income collected by the service is done so in accordance with the Council's Corporate Debt Recovery and Write-Off Policy. This report analyses collection performance, updates members on actions taken, and proposes the write-off for the financial year.
- 3.2. During the year bills and invoices totalling £77.801m were issued by the Council, an increase from £75.244m in 2016/17.

4.0 Council Tax Collection

- 4.1. In 2017/2018, Council Tax bills totalling £31.25million were issued to 24,473 households. The total income received for Council Tax in 2017/18 was £20,702m including the revised multiplier for Bands E-H.
- 4.2. The key indicator of performance for Council Tax collection is the in-year collection rate. This represents the total amount of Council Tax collected as a percentage of the total amount billed. In 2017/2018 the in-year collection rate was 96.14%. This continues the recent trend of increased collection for the last three financial years and is the highest percentage ever collected by the Council in-year.
- 4.3. As previously reported, the increase in collection rates can be attributed to the improved internal processes as a result of the Vanguard review of this area and change in Sheriff Officers.
- 4.4. **Sundry Debt Collection**
- 4.5. A sundry debtor is the name given for invoices raised for chargeable council services. This can include social work services such as MECS or provision such as additional nursery sessions. However, large invoices for Health and Social care to the NHS and Stirling Council are also raised using the same approach. Individual services themselves are responsible for raising the invoices with payments monitored by Revenues, and where invoices remain unpaid, reminders are issued, and recovery action occurs where appropriate.
- 4.6. During 2017/2018 invoices totalling £11.262m were issued by the Council with an in-year collection rate of 83.99%. The collection rate was slightly down from 2016/17 (86.80%), however it is still up by ten percentage points from 2015/16. The collection performance can also fluctuate due to the timing and issuing of invoices. Where invoices are raised in the final quarter of the year there is of course less time prior to the year-end for payments to be made and/or recovery action to begin. This is different from Council Tax where demand notices are issued at the start of the financial year, and recovery action can proceed throughout the year.
- 4.7. During 2017/18, sundry debt aged over 90 days dropped from 65% to 56%, highlighting that improvements have been made.
- 4.8. During the year Council departments were provided with more detailed reports on outstanding invoices, thus enabling services to be more proactive with customers and debts prior to the situation escalating. Most notable engagement has been with the Adult Care Service Manager.
- 4.9. **Non Domestic Rates (NDR) Collection**
- 4.10. Clackmannanshire Council are required to bill and collect Non Domestic Rates (NDR) on behalf of the Scottish Government. Income is then pooled and distributed to Councils, under the rates pooling system. During 2017/18 the council billed businesses for rates totalling £16.584m, a 5.34% increase in the amount levied. The collection rate for 2017/18 at the year as a percentage of the total billed was 95.76%. This is down slightly by 1.37% on previous collection rate (97.09%) and can be attributed to a number of reasons, some rate payers not updating payments in accordance with new rateable values as many have appealed to the assessor. Whilst, ratepayers are meant to make

correct payment whilst appeals are lodged are heard, a number did not follow this approach this year. In addition, a number of ratepayers had to start contributing to rates pool for the first time in seven years due to the revaluation taking them outwith the scope of the small business bonus scheme. Moreover, the Council reviewing rates relief did cause some confusion to ratepayers. We will programme in future not to carry out a relief review in the same year that the assessor reviews the rateable values.

4.11. The current Rates legislation means that in-year recovery cannot begin until October of the billing year, slightly curtailing recovery action. However, this is currently under review by the Scottish Government with the expectation that NDR billing will be aligned with Council Tax in future years. Recovery action including warrants being granted for our recovery agents is still continuing to improve the overall 2017/18 collection position.

4.12. **Housing**

4.13. Total gross rental income for 2017/18 payable by the almost 5,000 council tenants and associated lock-ups was £18.704 million (up from £18.446 million in 2016/17), an increase of £258,000.

4.14. As noted in the report to the June 2018 Scrutiny Committee current tenant arrears increased by 26%. Most, if not all, of this can be attributed to the roll out of Universal Credit (UC) within Clackmannanshire. At this point last year there were just over 100 tenants on UC, this has now increased to 697 with 88% of them in arrears totalling £455,000.

4.15. **Former tenant Arrears**

4.16. Tenancies end for a variety of reasons including, abandonment, eviction or death. When there is a balance on the account these arrears can be difficult to collect if for example, there is no forwarding address, or the deceased has no estate.

4.17. During the year 288 (66%) of the 434 tenancies ended had an outstanding rent balance, amounting to £227,258. This equates to an average former tenant arrear of £789.09. This represents an average increase of £96.65 of debt at tenancy end compared with 2016/17.

4.18. Improvement in collections however meant the total outstanding reduced by £2,500, which is the first reduction in debt in recent years.

4.19. Greater use has been made this year of Stirling Park Sheriff Officers for the collection of these accounts, and internal review of collection processes of these accounts continues with consideration being given to all alternative forms of collecting these accounts due, especially as the Sheriff Officer contract specification and retender process is due this financial year.

4.20. **Housing Benefit Overpayments**

4.21. An overpayment of Housing Benefit occurs when an individual receives an award of benefit that is then deemed not to have been due. This can occur for a variety of reasons, including claimant error, fraud, backdated change in circumstances or LA error. For existing Housing Benefit claimants any overpayment can be recovered from on-going entitlement, but for others,

customers are required to make arrangements to repay. Housing Benefit overpayment accounts are also sent to Sheriff Officers for collection.

- 4.22. At the end of 2017/18 there were outstanding Housing Benefit overpayment accounts totalling £1,098,971.86. This is an increase of around £100,000 in this financial year. Fraud and Error and overpayments is a significant focus for the DWP with the Council receiving dedicated additional funding to carry out fundamental reviews of our HB dataset. In addition, the UK government have granted some additional data tools specifically for this area to ensure claims are being paid out correctly. This resulted in over half of the council's benefit caseload being formally reviewed during 2017/18, with a significant number of claims being ended, benefit awards reducing and a number of customers being referred and investigated for fraud.
- 4.23. Therefore, although the amount of debt has increased, we have perhaps captured or stopped future overpayments at an early stage which ensures claims are correct to mitigate against future debt rises. However, HB overpayments is not an area where the council can receive deductions from UC awards and this is therefore one debt area that will prove increasingly challenging to collect in the future, unless those rules change.

5.0 Overall Debt Position

5.1. The following table shows the current debt position for all income streams.

5.2.

Debtor	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
Council Tax	10,302	10,531	10,531	10,843
Sundry Debtors	3,063	3,358	2,515	3,236
HRA Debts	2,477	2,710	2,953	2,938
Total Gross Debtor	15,842	16,599	15,999	17,017
Total Provision	(9,562)	(10,612)	(11,577)	(12,065)
Total Net Debtor	6,321	5,987	4,422	4,952

5.3. The Council's debtors' position is reported as both a gross and net position. The gross debtor reflects the total amount due to the Council.

5.4. The net debtor reflects the amount that the Council realistically expects to recover. The difference between these two figures is the debtor provision which is a prudent calculation of debt that is not expected to be recovered. The net debtor position is recognised as the best reflection of debts that can be recovered.

5.5. For 2017/18, the figures are draft and still subject to audit. They also incorporate the proposed write-off detailed within this paper to show a comparable position of the gross and net debtors over the three years. Each year there is adequate provision made against the debtor. The key indicator for debtor performance is that of net debtor, which is not affected by any write-off.

6.0 Irrecoverable Debt for Write-Off

6.1. Each financial year the council is required to propose accounts for write-off from each income stream in accordance with the Corporate Debt and Write-off Policy.

6.2. The table below highlights the proposed write-off from each income stream along with a comparison of the accounts approved for write-off in financial year 2016/17.

Type of Debt	Approved Write-Off 2016/2017		Proposed Write-Off 2017/2018	
	Number of Accounts	Value (£)	Number of Accounts	Value (£)
Council Tax	947	359,462	649	200,245
NDR	41	124,243	42	213,623
Sundry Debts	65	51,884	6	446,413
Former Tenant Arrears	532	216,423	50	44,246
Housing Benefit Overpayments	537	176,190	247	170,394
Total	2,122	928,202	994	1,074,921

6.3. Accounts can be proposed for write-off for a number of reasons including;

- Deceased – where the customer has died and left no estate.
- Sequestration – The customer has applied for and been awarded bankruptcy and there is unlikely to be any dividend for creditors.
- Untraceable – No up to date contact information is available for the customer and all means of contacting them has been exhausted.

- Small Balance – The balance outstanding on the account is small and it is not deemed cost effective to pursue.
- Management Write-Off – Management have agreed to the write-off of the debt due on a particular case due to the individual circumstances of the customer.
- Time Lapsed – Where the debt has prescribed under the Prescription and Limitation Act Scotland 1973 and it has been more than 5 years since last contact with the customer.

6.4. Appendix A gives a full breakdown of reasons for the proposed write-off of debts in each income stream. For 2017/18 the number of proposed council tax accounts for write-off has reduced by almost a third. This can be attributed to improved collection rates by continuing improvements in internal processes and procedures. Over half of the council tax accounts being proposed for write-off are due to death of the debtor leaving no estate.

6.5. Following on from last years fundamental review of the Former Tenant arrears caseload, the number of accounts proposed for write-off this year has reduced to only 50. Although collection of these arrears continues to be difficult, following the caseload being reviewed it allowed for accounts with a real likelihood of collection to be focussed on.

6.6. Overall there is an increase in the value of proposed write-off this year of £146,719, however this can be wholly attributable to two sundry debtors accounts being proposed for write-off accounting for in excess in £400k of the overall council write-off.

6.7. These two debtors (companies) are either already fully dissolved or proceeding via administration, with indications of either no funds or very little funds available to be distributed to non-preferred creditors. For the company still proceeding through the court appointed administrator, all efforts will continue to be pursued via the administrator for our claims. If funds are made available to our claims then these amounts will be allocated back to the council's debt provision and Council notified. These debtors accounts had been fully provided for in last years accounts.

7.0 Sustainability Implications

7.1. None

8.0 Resource Implications

8.1. Financial Details

8.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes X

8.3. Finance has been consulted and has agreed the financial implications as set out in the report. Yes X

8.4. *Staffing*

8.5. *There are no staffing implications arising from this report.*

9.0 Exempt Reports

9.1. Is this report exempt? Yes No

7.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please double click on the check box)

- Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all
- Our families; children and young people will have the best possible start in life
- Women and girls will be confident and aspirational, and achieve their full potential
- Our communities will be resilient and empowered so that they can thrive and flourish

(2) **Council Policies** (Please detail)

Clackmannanshire Council Debt Recovery and Write Off Policy – June 2018

8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations? No

9.0 Legality

9.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

10.0 Appendices

10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix - Annual Review of Debtors 2017/18

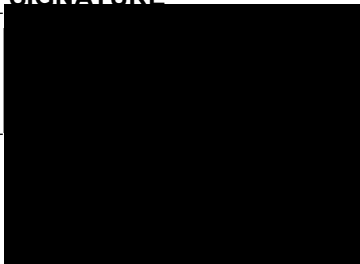
11.0 Background Papers

11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered) No

Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Yvonne Sharp	Senior Adviser	2405
Murray Sharp	Service Manager	5113

Approved by

NAME	DESIGNATION	SIGNATURE
Ahsan Khan	Head of Housing and Community Safety	
Nikki Bridle	Chief Executive (Acting)	

ANNUAL DEBTORS REVIEW 2017/18

REVIEW OF INCOME COLLECTION PERFORMANCE

1.0 Housing

- 1.1 The Housing Debtor relates to all income collected in relation to the Housing Service, including residential, lock up and garage rents, re-chargeable repairs and Housing Benefit Overpayments. The Housing Debtor can be broken into the following different categories.

HRA arrears position 2015/16 to 2017/18

	2015-16 £000	2016-17 £000	2017-18 £000
Current tenant arrears	634	708	894
Former tenant arrears	727	818	816
HB Overpayments	1,139	1,207	1,099
Rechargeable Repair	197	196	101
Other Miscellaneous	13	14	28
Total Gross Debtor	2,710	2,943	2,938
Provision	(2,220)	(2,431)	(2,416)
Total Net Debtor	490	512	522

- 1.2 The majority of this debt is accounted for within the Housing Revenues Account, with the exception of Housing Benefit Overpayments which are included in the general fund account.
- 1.3 For 2017/18 the gross Debtor reduced by £15,000. However, it should be noted that this takes account of £392,613 written off (2016/17) from former tenants arrears and HB Overpayment accounts.
- 1.4 The key measure of performance for current tenant rent arrears is expressed as the percentage of gross rent arrears as measured by the Scottish Social Housing Charter. For 2017/18 this was 9.1%, an increase from 2016/17's performance of 8.39%. The roll out of Universal Credit has had, and will continue to have, a significant impact on rent arrears. Housing rent is managed by the Tenancy Management Team and Housing Officers are working closely with tenants to help them to sustain their tenancy and pay their rent.

**ANNUAL DEBTORS REVIEW 2017/18
REVIEW OF INCOME COLLECTION PERFORMANCE**

ANNUAL DEBTORS REVIEW 2017-18
IRRECOVERABLE DEBT FOR WRITE-OFF

1.0 Introduction

- 1.1. The following table identifies the proposed write-offs for each income stream for 2017/18, together with a comparison of the write off approved for 2016/17. The 2017/18 Statement of Accounts reflects the net debt position.

Proposed write-offs for 2017-18

Type of Debt	Approved Write Off 2016/17		Proposed Write Off 2017/18	
	Number of accounts	Value	Number of accounts	Value
Council Tax	947	359,462	649	200,245
NDR	41	124,243	42	213,623
Sundry Debt	65	51,884	6	446,413
Former Tenant Arrears	532	216,423	50	44,246
Housing Benefit Overpayments	537	176,190	247	170,394
Total	2,122	928,202	994	1,074,921

Council Tax and Water Charges

- 1.2. The following tables split the proposed write-offs for Council Tax and Water Charges by reason for the write off.

Reason	2016-17		2017-18	
	No of Accounts	Total £	No of Accounts	Total £
Deceased	368	91,218	360	80,922
Sequestration	479	237,743	281	117,156
Untraceable	40	11,515	2	32
Small Balance	2	4	2	16
Management W/O	-	-	-	-
Outwith Jurisdiction	44	15,263	2	1,692
Sherriff Officer Uncollectable	14	3,719	2	427
TOTAL	947	359,462	649	200,245

- 1.3. The proposed write off for Council Tax compared with 2016-17 has decreased, again highlighting improved processes.

ANNUAL DEBTORS REVIEW 2017-18
IRRECOVERABLE DEBT FOR WRITE-OFF

Non Domestic Rates (NDR)

- 1.4. The following tables split the proposed write-offs by reason for the write-off. Full case records are retained by the Revenues Team for audit purposes.

Year	2016-17		2017-18	
	No of Accounts	Total £	No of Accounts	Total £
Moved away/Untraceable	9	20,654	11	14,360
Deceased	0	0	0	0
Sequestration/liquidation	13	42,196	11	66,535
Immaterial Balances	1	14	0	0
Trust Deed	0	0	0	0
Cease Trading	18	61,379	20	132,726
TOTAL	41	124,243	42	213,621

- 1.5. The largest increase in the proposed NDR write-off has been from Sequestration/Liquidation and ceased trading tenants. In terms of ceased trading, this is not a phenomenon exclusive to Clackmannanshire but is being experienced across Scotland. This area is being discussed at officer practice forums to see if legislation can be altered to place responsibility onto owners to inform local authority of business tenant changes.

Sundry Debt

- 1.6. Sundry debtors has been subject to ongoing review, with Revenues and Finance working to reconcile files sent to Sheriff Officers and to ensure all debtor status are updated. The first part of this reconciliation has been to analyse companies who have dissolved and/or are in administration with little likelihood of the council receiving funds from the creditor's pots. From the 6 accounts proposed for write-off, 2 of these accounts total an amount in excess of £400k.

Reason	2016-17		2017-18	
	Number	£	Number	£
Deceased	51	41,602	0	0
Sequestration	1	430	0	0
Untraceable	13	9,852	0	0
Administration/Dissolved	0	0	6	446,413
TOTALS	65	51,884	6	446,413

ANNUAL DEBTORS REVIEW 2017-18
IRRECOVERABLE DEBT FOR WRITE-OFF

Former Tenant Rent Arrears

- 1.7. The following tables show the proposed write-offs for Former Tenant Arrears for dwellings and lock-ups showing the write-offs split into each reason type.
- 1.8. The number of former tenant arrears accounts proposed for write-off this year is significantly reduced from the 532 proposed for write-off last year. As noted last year, each individual account was fundamentally reviewed and analysed ensuring the focus wasn't on cases where the chance of recovery was limited.

Reason	Proposed 2016-17		Proposed 2017-18	
	Number	Total £	Number	Total £
Deceased	146	28,056	30	19,317
Untraceable	238	176,335	0	0
Prescribed	89	21,883	3	1,551
Sequestered	14	18,387	14	22,100
In Prison	0	0	0	0
Long Term Care	12	2,320	0	0
Small Balances	22	107	0	0
Abandonment/Management Write Off	11	6,254	2	1,277
TOTALS	532	253,342	49	44,245

Housing Benefit Overpayments

- 1.9. As noted to Council last year, HB had not been written off for some time due to processes to improve information held and allow the position to be reviewed once the Sheriff Officers had completed an exercise with the data. This resulted in £212,000 being proposed for write-off last financial year, compared with the £170,000 this year. The reasons for which are detailed below.

Proposed 2017-18

Reason	Number	Total £
Abandoned	0	0
Deceased	25	49,317
in long term care	1	667
sequestered	18	21,997
Time Elapsed	201	98,047
Untraceable	2	366
TOTALS	247	170,394

**ANNUAL DEBTORS REVIEW 2017-18
IRRECOVERABLE DEBT FOR WRITE-OFF**

ANNUAL DEBTORS REVIEW 2017/18
DETAILED DEBTORS POSITION TO MARCH 2018

Debtor	2014-15 £000 ¹		2015-16 £000 ¹		2016-17 £000 ¹		2017-18 £000 ²	
Council Tax	10,302		10,531		10,531		10,843	
Provision	(7,108)	3,194	(7,559)	2,972	(7,927)	2,604	(8,300)	2,543
Rent	2,477		2,710		2,953		2,938	
Provision	(1,960)	517	(2,220)	490	(2,449)	504	(2,416)	522
Sundry Debtors	3,104		3,358		2,515		3,236	
Provision	(494)	2,610	(833)	2,525	(1,113)	1,402	(1,349)	1,887
Total Net Debt		6,321		5,987		4,510		4,952

- 1.0. The above table details the debt position of the main council income source and the provision made against each. The Council Tax debt remained static in 2016-17 compared with 2015-16. However, although our overall collection rate has improved, the overall Council Tax debt has increased by £312k.
- 1.1. An examination of this underlying figure and collection rate is that our collection of Scottish Water charges dipped in 2017/18, and due to the line-by-line apportionment has meant that our overall debt has increased. Scottish Water has been in discussions with COSLA trying to ensure that all councils are using all methods of recovery available to ensure their collection is improved. A number of Scottish local authorities have started using and exploring Water Direct with payments for water charges being paid direct from benefit awards. This is a very resource intensive activity, however it will be explored once the revenues banked vacancies for redeployees have been filled.
- 1.2. Sundry Debtors debt has increased, but as outlined in the report the timing and issuing of invoices at the year-end can disproportionality affect this figure. For example, an invoice could be raised for £3m and not be required to be paid until April (the new financial year). This would in effect double the debt but wouldn't legally be due for payment or recovery.

¹ These figures are post audit and reflect the position on the Council's Financial Statement

² These figures are draft and are still subject to change as part of the 2017/18 external audit of the Council's Financial Statements

ANNUAL DEBTORS REVIEW 2017/18

DETAILED DEBTORS POSITION TO MARCH 2018

- 1.3. Provision for debts has increased in last few financial years owing to the value of debts outstanding. The Council in future years will need to give cognisance to new International Financial Reporting Standards (IFRS), which will require a fundamental review of provision made for debtors based on historic practice of non-payment. Council will be kept updated as guidance and preparations are made to take this into account.