

EAST RENFREWSHIRE COUNCILCABINET10 March 2022Report by Director of Business Operations and PartnershipsDEBT MANAGEMENT FOR COUNCIL TAX, NON DOMESTIC RATES, SUNDRY DEBT
INCOME AND HOUSING BENEFIT OVERPAYMENTS AND ARRANGEMENTS FOR
ADMINISTRATION OF NON DOMESTIC RATES**PURPOSE OF REPORT**

1. The purpose of this report is to seek approval to write-off as irrecoverable sums associated with Council tax, Non Domestic rates, Sundry debt income and Housing Benefit overpayments and for Cabinet to note that discussions regarding the administration of Non Domestic rates are ongoing. The debts recommended for write off have previously been included in bad debt provision and therefore the write off has no net impact on the revenue accounts of the Council.

RECOMMENDATIONS

2. It is recommended that Cabinet:

- (a) approves the write off of the following sums, totalling up to £709,029.39 without prejudice to subsequent recovery procedure:
 - Council Tax arrears totalling up to £399,098.87
 - Non Domestic rates arrears totalling up to £124,821.66
 - Sundry debt income totalling up to £74,471.68
 - Housing Benefit Overpayments totalling up to £110,637.18
- (b) notes that the write-off of these sums will have no net impact on the Council's accounts as provision has been made for the debt, in full, in previous years;
- (c) notes that Water and Sewerage charges totalling up to £127,607.42 are also being written off in discussion with Scottish Water;
- (d) notes that discussions with Renfrewshire Council are ongoing in relation to the current public services agreement in place for the delivery of the Non Domestic Rates service.

BACKGROUND

3. The Council debt recovery policy lists situations where write-off of debts will be considered when all viable means of collection are exhausted. As per standard accountancy practice, when it is clear that all viable means of collection are exhausted, the debt is written off and a release from the bad debt provision is used to offset this expense. There is no net impact on the overall revenue accounts of the Council as "bad debt provision" has already

been provided for the debt not being repaid. The Council sets the level of “bad debt provision” at a prudent level to minimise risk to the Council.

4. The Council bills and collects water and sewerage charges on behalf of Scottish Water. Sums collected/written-off in this regard do not affect Council revenue.

5. Non-Domestic Rates (NDR) have been administered on East Renfrewshire Council’s behalf by Renfrewshire Council since 2005. The annual charge paid for this has not changed significantly in this timeframe. In 2019 Cabinet approved continuation of this service via Renfrewshire Council.

COUNCIL TAX & WATER CHARGES

6. Legislation governing Council tax recovery provides for the summary warrant process. Once granted, enforcement action can be taken for a period of up to 20 years. Debts for years 2000/01 and 2001/02 are longer able to be pursued via the summary warrant route (or any other legal route). It is therefore recommended these are written off.

7. An examination of historical records shows the following in relation to Council tax:

| Year | Debt balances for Council Tax | Credit balances for Council Tax | Net debt proposed for write off |
|---------|-------------------------------|---------------------------------|---------------------------------|
| 2000/01 | £201,160.71 | £6,910.85 | £194,249.86 |
| 2001/02 | £212,536.04 | £7,687.03 | £204,849.01 |
| Total | £413,696.75 | £14,597.88 | £399,098.87 |

8. The Council bills and collects water and sewerage charges on behalf of Scottish Water. Sums collected/written-off in this regard do not affect Council revenue. An examination of historical records shows the following in relation to water charges:

| Year | Debt balances for water charges | Credit balances for water charges | Net debt proposed for write off |
|---------|---------------------------------|-----------------------------------|---------------------------------|
| 2000/01 | £59,073.07 | £2,029.45 | £57,043.62 |
| 2001/02 | £69,342.00 | £2,507.97 | £66,834.03 |
| Total | £128,415.07 | £4,537.42 | £123,877.65 |

9. Following the implementation of the new Council tax system December 2020, a data cleansing exercise on historical years was carried out where differences to the water and sewage reduction values in the previous system and the new system were identified. As a result of the exercise, the following balances, which relate to water and waste water charges only, have also been identified for write off.

| Year | Number of Accounts | Debt balance for Water charges |
|---------|--------------------|--------------------------------|
| 2002/03 | 84 | £975.93 |
| 2003/04 | 107 | £1,066.74 |
| 2004/05 | 114 | £595.94 |
| 2005/06 | 147 | £1,091.16 |
| Total | 452 | £3,729.77 |

SUNDRY DEBT INCOME

10. The main reasons for seeking approval for write-off of sundry debtor income, together with amounts for each reason, are shown below:

| Reason | Number of invoices | Value |
|---|--------------------|------------|
| Debtor gone away & trace activity exhausted | 172 | £74,342.01 |
| Small balance, uneconomical to pursue | 58 | £129.67 |
| Total | 230 | £74,471.68 |

11. The sum being put forward for write off this year is higher than the sum approved by Cabinet last year (£50,473.61) when recovery action had been suspended for a time as a result of the pandemic. The comparative figure for 2019/20 is £69,268.86. The sum proposed for write off is less than 1% of income expected to be collected in the current year and can be met from existing bad debt provision.

HOUSING BENEFIT OVERPAYMENTS

12. Housing Benefit Overpayments (HBOs) can occur where a housing benefit recipient fails to notify the Council of a change of circumstance which affects the level of housing benefit they are due to receive. This results in a debt being created within the Council's systems, which is then subject to collection processes. In most cases the overpayment is due to oversight but in a small number of cases the overpayment is the result of an attempt to defraud. Higher value more important cases of this type are referred to the Department of Work and Pension's Fraud and Error Service (FES) where such action may lead to prosecution or to a financial penalty being applied, known as an administrative penalty.

13. A recent analysis of the outstanding Housing Benefit Overpayments shows by reason of write off:

| Reason | Number of cases | Value |
|---------------------------------------|-----------------|-------------|
| Debtor deceased | 18 | £16,291.21 |
| Local Authority Error | 1 | £47.12 |
| Other | 1 | £182.48 |
| Prescribed* | 103 | £89,912.76 |
| Sequestered | 4 | £4,186.56 |
| Small balance, uneconomical to pursue | 8 | £17.05 |
| Total | 135 | £110,637.18 |

(*prescribed debt is debt that has been legally extinguished due to the time lapsed.)

14. The comparative HBO write-off which the Cabinet approved last year was £45,842.90. The value in 2020 was £91,821.72.

15. Performance on Housing Benefit Overpayment recovery had shown a year on year improvement in the years immediately before the pandemic. In 2019/20, 105% of overpayments identified in that year had been collected. (The indicator is a measure of payments collected in year, compared with overpayments created in year, hence it is possible to record a result over 100%). Collection performance for 2020/21 for this income stream, in common with other income streams last year, dipped as a result of the pandemic, with recovery action having been on hold for a period of time.

16. In many cases HBO debtors come from very low income households whose only source of income is benefits. For these reasons councils find it difficult to recover HBOs, however, in all cases the recipient is expected to repay the resulting overpayment. Outstanding debts are recovered either through benefit deductions at source (if the recipient is on benefits), payment arrangements or direct deductions via the Department of Work and Pensions (DWP).

17. The sum recommended for write off represents around 10% of the total Housing Benefit Overpayment level and can be met from existing bad debt provisions.

NON DOMESTIC RATES

18. In line with the debt recovery policy, write-off of debts associated with Non-Domestic Rates will be considered in the event of:

- Company liquidated (or in Administration)
- Sole trader sequestrated
- Business ceased trading / dissolved
- Small balance, uneconomical to pursue

19. In the year 2021/22, 10 businesses with NDR arrears of £124,821.66 have been identified for write off (2020/21 5 businesses, £47,419.54). Analysis of these accounts shows reason for write off as follows:

| Reasons | Number of businesses | Value (£) |
|--|----------------------|-------------|
| Company liquidated / in Administration | 2 | £717.77 |
| Sole trader Sequestrated | 2 | £14,847.61 |
| Company Dissolved | 6 | £109,256.28 |
| Total | 10 | £124,821.66 |

Further analysis by year shows:-

| Financial Year | Value |
|----------------|-------------|
| 2010_11 | £6,043.95 |
| 2011_12 | £6,326.10 |
| 2012_13 | £6,682.50 |
| 2013_14 | £6,860.70 |
| 2014_15 | £6,994.35 |
| 2015_16 | £7,290.00 |
| 2016_17 | £19,340.63 |
| 2017_18 | £19,664.06 |
| 2018_19 | £11,617.08 |
| 2019_20 | £26,407.91 |
| 2020_21 | £4,959.12 |
| 2021_22 | £2,635.26 |
| Total | £124,821.66 |

20. The sum to be written-off is around 1.1% of the sum which will be collected in the current year and can be met from existing bad debt provision. East Renfrewshire Council collected 97% of Non-Domestic rates income in the 2019/20 year. Collection levels for

2020/21 were adversely impacted by the pandemic. Nationally, recovery processes were delayed during 2020/21 in recognition of the difficulties facing businesses including periods of closure and reduced trading opportunities. Recovery of income in the 2021/22 year (based on comparison of December 2019 and December 2021 data) has returned to pre-pandemic levels.

21. Non-Domestic Rates (NDR) have been administered on East Renfrewshire Council's behalf by Renfrewshire Council since 2005. The annual charge paid for this has not changed significantly in this timeframe. Following Cabinet approval in February 2019 to continue with the existing arrangements, a review of alternative options was undertaken in 2021. An alternative service delivery model via another Scottish Local Authority was being explored however, they have deemed this to be cost prohibitive and this is no longer an option. Economically it would cost East Renfrewshire Council more to administer this service ourselves and the arrangement with Renfrewshire Council has been an effective one to date. On the basis that the current arrangements offer best value to the residents of East Renfrewshire Council, it is proposed that we continue under the provisions of the legislation, with NDR continuing to be administered on our behalf by Renfrewshire Council. The detail of this arrangement is currently being discussed with Renfrewshire Council and with Legal Services.

FINANCE AND EFFICIENCY

22. The impact of these proposed write-offs totals up to £709,029.39. This amount is fully provided for within bad debt provision.

23. Every effort is made to recover these sums and the decision to seek write-off is not taken lightly or without due cause. Should any future avenue become available by which to recover these monies, this decision does not prevent any such opportunities being pursued, hence the recommendation of write-offs "up to" said amounts.

CONSULTATION AND PARTNERSHIP WORKING

24. Council departments have been consulted in relation to the Sundry debt write off proposals. Our Non-Domestic Rates collection is administered on our behalf by Renfrewshire Council as a shared service.

IMPLICATIONS OF THE REPORT

25. There are no implications in relation to IT, legal, property, equality or sustainability.

CONCLUSION

26. Write-offs are made annually as part of normal business processes. There is accountancy provision for such write-offs and as such they do not affect the Council's overall finances.

RECOMMENDATIONS

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BACKGROUND PAPERS

- Debt Management for Non Domestic rates, Sundry Debt income, Housing benefit Overpayments and Council Tax reduction adjustment, Cabinet 4 March 2021
- Arrangements for the Collection of Council tax and Council tax/Water charge write off, Cabinet 5 November 2020
- Write of irrecoverable Non Domestic Rates and arrangements for administration on Non Domestic rates, Cabinet 14 March 2019
- Collection of Revenues – Debt Recovery Policy, Cabinet 16 June 2016

Evidence is also provided by the Non Domestic Rates system and reports from Sheriff Officers.