



## AUDIT COMMITTEE REPORT

|                     |                                |
|---------------------|--------------------------------|
| <b>Report Title</b> | <b>COUNCIL TAX DEBT REPORT</b> |
|---------------------|--------------------------------|

**AGENDA STATUS: PUBLIC**

|                                      |                               |
|--------------------------------------|-------------------------------|
| <b>Audit Committee Meeting Date:</b> | 2 <sup>nd</sup> December 2008 |
| <b>Policy Document:</b>              | No                            |
| <b>Directorate:</b>                  | Finance & Support             |
| <b>Accountable Cabinet Member:</b>   | Councillor Malcolm Mildren    |

### 1. Purpose

---

- 1.1 The Audit committee at its meeting of 24 June 2008 asked for a report providing for an overview of debt levels, types of debt and outlining progress in debt collection in this area.
- 1.2 This report sets out the current position with respect to the debt raised and associated arrears, bad debt provisions, and a comparison of estimated to actual council tax base.

### 2. Recommendations

---

- 2.1 That the contents of the report be noted.

### 3. Issues and Choices

---

#### 3.1 Report Background

- 3.1.1 This report explores aspects of Council Tax Collection and arrears with regards to the overall position as at 31<sup>st</sup> October 2008.

#### 3.2 Analysis of Council Tax Arrears

- 3.2.1 The monthly recovery cycle progressing accounts from billed, to reminder/final notice, to summons, to liability order, to 14-day letter is being delivered in accordance with targets and this has resulted in improved current year

collection rate (See Annex 1). This is under-pinned by day 1 received, day 2 cleared processing when dealing with correspondence and queries. The number of summons issued, as compared to last year, has reduced, although the level of potential activity has increased. This would suggest that we started to change our customer's behaviours.

- 3.2.2 Arrangements to pay, Attachments of Benefits and Earnings are monitored monthly to ensure payments are received as agreed, otherwise prompt further action is being taken. We recently took action to pursue two employers through the Magistrates Court for non-compliance with deductions from earnings orders, which NBC has never done before, who have now changed their behaviours.
- 3.2.3 Accounts are now referred to Bailiffs to collect in a more timely fashion, 14 days warning, means 14 days! There is a large amount of debt sitting at this stage and the two current companies are being performance managed to maximise income. Work is currently being undertaken to reduce the number of cases held over 13 weeks, with no payments being received, to either re-refer, or take alternative action.
- 3.2.4 Trace and collect is undertaken by a specialist third bailiff company, where debt hasn't been successfully recovered by the other two, recovery rates are low and debt tends to be written-off at a later date. The current bailiff contract is due for renewal shortly and the level of reward element to the bailiff company needs to be explored.
- 3.2.5 The debt awaiting further action is primarily waiting to be reviewed prior to taking either bankruptcy, committal or issuing charging orders. This is resource intensive and following the improvements and efficiencies made in the earlier stages of the recovery process, focus is now turning to this debt.
- 3.2.6 Two customers have been made bankrupt for non-payment of Council Tax, a third was adjourned and paid from the sale of a second property. We have a number of other cases either adjourned by the court, with promises to pay, or awaiting court dates. This action is currently yielding about 20% recovery rate, but it is early days yet to confirm this will always be the case. Progress has been hampered by a lack of legal support and to resolve this, an outside company is currently being sourced to support future activity.
- 3.2.7 We are due meet with the Chief Clerk of the Magistrates Court on the 17<sup>th</sup> September, with a view to taking new committal cases to court. Historically there has been a reluctance to provide court time, as it is resource intensive for all parties and recovery rates are low, especially as there is little chance of imprisonment. As the customers who may be subject to this type of action are generally aware of this, we have re-engineered our process to maximise impact.
- 3.2.8 We have never pursued Charging Orders before, however we have prepared 7 cases, which have been submitted to Legal for review. The process is relatively straight forward, however payment can often take years before it is realised, hence a historic reluctance to take this route. We will need to

consider in the medium term, at what point the council feels that it will be appropriate to force sale.

- 3.2.9 Pending write-off are cases at the end of their journey and are processed on a monthly basis in accordance with agreed procedures.

### **3.3 Bad debt provision and write-off levels**

- 3.3.1 In comparison between 2006/07 and 2007/08, the overall debt level has reduced, but debt over five years old has aged, the reductions in the outstanding debt in the five most recent years was not at a level to avoid an increase in the bad debt provision (See Annex 2).

- 3.3.2 If a similar exercise is undertaken for 2007/08 and 2008/09, using figures available as at 16.11.08 and assuming an inflationary increase in current year arrears being carried forward, the provision for bad debt would need to be increased by a further £136k. It is expected that this figure will reduce to an increase of £89k by the end of November and this figure will continue to reduce as we move towards the end of March 2009. It also highlights the need for further attention on debts aged three and four years old.

- 3.3.3 The data to years prior to 06/07 is not of sufficient detail to allow detailed analysis, however it is likely that write-offs against historic debt have been higher than the assumed level of uncollectible debt (i.e. the 1.5% built into the Council Tax base calculation for the current year). It would appear that the total of bad debt provisions and write-offs is higher than the level built in to the council tax collections for previous years.

- 3.3.4 It should be noted that the assumed collection rate figure used for 04/05 and prior was 99%. There is no evidence to suggest that this collection rate has been achieved for those years.

- 3.3.5 The figure of 98.5% has been used since 05/06, and that was reduced from 99%, due to a deficit on the collection fund. The indications are that this may have to be reduced for future years.

### **3.4 Comparison between Tax Base and Government Return**

- 3.4.1 The comparison between the tax base and government return (ctb1), which is completed the following October, is not a perfect comparator, as the financial year still has five and a half months to run. However, it is consistent and the impact of individual new properties on the ctb1 tends to reduce as the financial year progresses (See Annex 3). A small shortfall is not necessarily a concern.

- 3.4.2 The figures used for the ctb1 information are an extract taken from our database at a specific date, usually in October, and with Valuation Officer adjustments at a specific date, usually a fortnight earlier.

- 3.4.3 The figures used for the Tax Base as at the 30<sup>th</sup> November of each year, plus an estimate of future new build and a collection rate applied, in our case 98.5%. In 04/05 and 05/06 the figures supplied by the builders were overly

confident, however we now monitor how realistic these estimates are, and make any necessary adjustment.

3.4.4 The assumed collection rate figure used for 04/05 was 99%, not 98.5%.

### **3.5 Choices (Options)**

3.5.1 The Council can pursue further methods of debt recovery. An indication is required from Audit Committee of the extent of recovery action that is acceptable to the Council.

## **4. Implications (including financial implications)**

---

### **4.1 Policy**

4.1.1 Not applicable.

### **4.2 Resources and Risk**

4.2.1 Non recovery of debt has an adverse impact on the Council's revenue position.

### **4.3 Legal**

4.3.1 Setting and collecting Council Tax operates with strict legal boundaries.

### **4.4 Equality**

4.4.1 Council Tax debt can be owed by some of the more vulnerable residents.

### **4.5 Consultees (Internal and External)**

4.5.1 None

### **4.6 Other Implications**

4.6.1 None

## **5. Background Papers**

---

5.1 None

### **Report Author:**

Ian Tyrer  
Revenues Manager,  
Tel 01604 837451