

# Summary of Debt Write-offs and Debt Improvement Plan

## Strategy & Resources Committee – 26<sup>th</sup> March 2024

Report of: Mark Hak-Sanders (Director of Resources S151)

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Purpose: For information and as context for approval of write-offs over £10,000

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Publication status: Open

Wards affected: All

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### Executive summary:

This report sets out an update on the work to improve the Council's approach to debt management, alongside the annual position for write-offs completed during 2023/24.

The report notes the requirement to seek Committee approval for any write-off over the value of £10,000. The write-offs requiring Committee approval have been included in a Part 2 report due to the commercial sensitivity of detailing write-offs in a public forum, including the potential to identify individual debtors.

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**This report supports the Council's priority of:** Building a better Council

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### Recommendation to Committee:

That Committee:

- Note the continuing positive steps being taken and improvements made in the recovery of outstanding debt.
- Note the write-offs individually less than £10,000 of £648k.
- Note that six write-offs over £10,000, totalling a further £76k, require Committee approval and are presented as part of a Part 2 paper.

## **Reason for recommendations:**

Across Finance, Exchequer, Revenues and Benefits and Legal Services a significant amount of work has been undertaken to baseline the Council's debt position, strengthen processes and recover outstanding debt. The report sets out the current position in delivering those improvements.

As a result of this work, it is necessary to write-off an element of aged and unrecoverable debt which has accumulated over a number of years. The report also reconfirms the commitment to an annual update on this position to provide Member oversight in future.

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## **Debt Improvement Plan Update**

1. In March 2023 the first annual update and write-off report was produced and set out the annual approach that would be taken to report and update on debt across the Council. This report details the improvement work carried out to date and the annual detail of write-offs.
2. In June 2022, the Committee approved a debt improvement plan, with up to £50k available to fund additional resourcing. After previous failed attempts to secure a temporary resource, recruitment has now been successful and fixed-term temporary resource is in place until October 2024.
3. From April 2023, following the Revenues and Benefits restructure, an existing Business & Income Specialist role was redesigned as Corporate Debt Manager. Working alongside the Exchequer Team, this change brings a positive and cohesive approach to the management of debt across the various income streams within the Council.
4. A continuous improvement approach is in place across Exchequer Services, Finance, Legal Services and the Corporate Debt Unit in Revenues and Benefits, with several improvements being delivered in 2023/24:
  - Following the migration from Capita to NEC all historic debts have been reviewed and unrecoverable debts now being presented for write-off.
  - Monthly court hearings agreed with Guildford Magistrates court.
  - Business Rates and Council Tax recovery timetable designed to issues recovery notices monthly to maximise collection rates.
  - Review of aged debt for Business Rates and Council Tax where accounts had stagnated due to recovery officers assisting the Revenues team with backlog of billing work; this review will continue into 2024/25.
  - Legal Services recovered a one-off outstanding Council Tax debt of £72k which involved drafting a winding up petition and threatening to serve it on a developer.
  - Training of staff regarding the raising of invoices and supporting information required to ensure invoices can be paid promptly by customers.
  - Joint working to view customers with more than one debt outstanding to the Council.
  - Weekly review of sundry debt and additional phone calls made to follow up debt over 30 days old.

- Continued discussions with the County Council to seek their support in recovering Council Tax debts which predominantly benefit the precepting authorities.
5. Future improvement planned for 2024-2025
- As part of the work that has taken place during 2022-2024, significant effort has gone into reviewing all outstanding debt to ensure that historic unrecoverable debt is now written off. The Council can now move into a business-as-usual approach and will continue to present an annual debt and write-off report to write-off debts once all recovery options have been exhausted. Ongoing improvement work will include:
- Continued joint working across the Council.
  - Review of software solutions for 'One customer view'.
  - Continuous improvement activity within Agresso, increasing automation where possible.
  - New Enforcement Agent (Bailiff) contract starts with effect from 1 April 2024.
  - The Corporate Debt team will be meeting with Oxted CAB late April to discuss the Council's approach to debt.

### **Summary of Annual Debt Write-Offs**

6. The Council's budget for 2023/24 stands at £11.935m for the General Fund and £16.358m Housing Revenue Account. This gives a total annual budget of £28.293m, providing context to the proposed write-offs. In addition, a further c.£18m of Housing Benefit payments are made each year.
7. The Council has a duty to ensure that all income owed to the Council is collected efficiently and effectively for the benefit of taxpayers and the Housing Revenue Account.
8. The Council categorises its debts using the following headings and each type of debt is managed by the appropriate department:
- Council Tax – Revenue and Benefits Team
  - National Non-Domestic rates - Revenue and Benefits Team
  - Housing Benefit overpayments – Revenue and Benefits Team
  - Council House Rent and Former Tenant Arrears – Revenue and Benefits Team and Housing
  - Sundry Debts – Exchequer Services Team
9. The Council operates a three step best practice approach when collecting debt as set out in the Payments from Customers and Debt Management policy as approved by Strategy & Resources Committee on 1<sup>st</sup> February 2022:
- Step one: issue requests for payment,
  - Step two: Refer to collection agency,
  - Step three: Issue Legal proceedings.

10. Write-off is only considered as a last resort and when all cost-effective recovery options have been taken.
11. This report covers write-offs in respect of Housing Benefit overpayment, Housing Revenue Account Debt, Council Tax, Business Rates and Sundry Debts.
12. The total number and value of debts to be written-off during 2023/24 is 1,448, totalling £723,680.36. However, these debts have accumulated over many years and are therefore disproportionately high for 2023/24. Of these:
  - £18,556.86 relate to the General Fund sundry debts - This represents 0.2% of the Council's overall budget
  - £245,198.53 relate to Housing Benefit Overpayments – This represents 1.36% of the annual Housing Benefit payments for a single year, however these have accumulated over a number of years with the oldest dating back to 2007
  - £93,117.25 relates to the Housing Revenue Account – representing 0.6% of annual HRA spend
  - £241,515.46 Council Tax of which 11% £26,566.70 impacts TDC
  - £125,292.29 NDR of which 40% £50,116.92 impacts TDC

13. The proposed write-off breakdown is as follows. The Housing Benefit Overpayments and HRA debts have no General Fund impact. All write-offs are generally covered by a bad debt provision to mitigate revenue impact:

<b>Fund</b>	<b>Number of write- offs Under £10k</b>	<b>Value of Write-offs under £10k</b>	<b>Average value per debt</b>	<b>Value of debt to TDC</b>
General	69	£18,556.86	£268.94	£18,556.86
Housing Benefit Overpayments	344	£204,322.65	£593.96	£204,332.65 *
HRA	79	£93,117.25	£104.27	£93,117.25 **
Council Tax	893	£226,952.17	£254.15	£24,964.74 ***
Business Rates	57	£104,612.78	£1,835.31	£41,845.11 ****
<b>Total</b>	<b>1,442</b>	<b>£647,561.71</b>	<b>£475.10</b>	<b>£382,546.60</b>

<b>Fund</b>	<b>Number of write- offs Over £10k</b>	<b>Value of Write-offs Over £10k</b>	<b>Average value per debt</b>	<b>Value of debt to TDC</b>
Housing Benefit Overpayments	3	£40,875.88	£13,625.29	£40,875.88
Council Tax	1	£14,563.29	£14,563.29	£1,601.96
Business Rates	2	£20,679.51	£10,339.76	£8,271.80
<b>Grand Total</b>	<b>1,448</b>	<b>£723,680.36</b>	<b>£499.78</b>	<b>£433,296.30</b>

\* Debt relating to claimant or Council error is funded by DWP, when written off. Most debt relating claimant error can also be recovered from the claimant

\*\* HRA Impact, not general fund

\*\*\* 11% of write-off impacts TDC

\*\*\*\* 40% of write-off impacts TDC

The total breakdown of write-off reasons and types of debt is set out in Appendix A to the Part 2 report along with the bad debt provision. This is deemed to be commercially sensitive as disclosing the reasons for write-off may influence the behaviour of other debtors.

14. The age profile of these debts is as follows:

<b>Year</b>	<b>General</b>	<b>Housing Benefit Over-payment</b>	<b>HRA</b>	<b>Council Tax</b>	<b>NDR</b>	<b>Total</b>
2002 - 2010		£7,323.07		£1,706.14	£5,525.35	£14,554.56
2011 - 2015	£3,557.80	£48,042.83	£2,567.77	£20,013.40	£4,958.51	£79,140.31
2016 - 2020	£13,722.06	£91,133.94	£55,325.01	£105,101.16	£58,074.77	£323,356.94
2021 - 2024	£1,277.00	£98,698.69	£35,224.44	£114,694.76	£56,733.66	£306,628.55
	<b>£18,556.86</b>	<b>£245,198.53</b>	<b>£93,117.22</b>	<b>£241,515.46</b>	<b>£125,292.29</b>	<b>£723,680.36</b>

15. Writing-off debt is a last resort and a decision taken in the best financial interest of the Council as further recovery work would be uneconomical. The improvement work set out above, including the continuance of an annual report to Strategy & Resources committee, signals that the Council has a tighter grip on its debt position and recovery practices, and intends to do further work to limit the number and value of future write-offs.
16. The equivalent Debt Report for March 2023 included write-offs totalling £272k, predominantly in Housing Benefit. More work has been undertaken in the meantime to continue the review of Housing Benefit and expand into areas of Council Tax and NNDR. As with last year, the write-off will not have a General Fund impact, as the Council makes prudent provision for unrecoverable debt in its budget, and only a small sub-set of the debt is general fund related.
17. Whilst further work is necessary to ensure that all aged-debts are reviewed, and therefore future write-offs may be expected, the situation is gradually returning to business as usual with improved practices and a more robust approach in place.

## **Key implications**

### **Comments of the Chief Finance Officer**

Continuing to improve the debt position, in terms of financial performance and the robustness of reporting, is a key priority in the Exchequer service plan for 2023/24 and 2024/25. Whilst the write-offs for 2023/24 are disproportionately high because they have accumulated over a number of years, the General Fund position is expected to improve overall. This is because aged debt is covered by a bad debt provision and also because the sundry debt position is improving.

### **Comments of the Head of Legal Services**

Council Tax and business rates deliver a critical revenue to enable the Council to deliver its statutory functions. Therefore, write off is considered as a last resort only. Similarly, all other debts are pursued as far as possible as any non-payment has an impact on the Council's financial position. Officers and Members have a duty to ensure that every reasonable avenue is explored before any debt is written off. However, it is inevitable that the Council like any organisation will experience a degree of bad debt. Once that debt becomes persistent then it can start to impact on the Council's overall financial management. Therefore, this report is seeking to write off some aged debts as set out in the recommendations.

The correct accounting practice is to write off debts at the point they are deemed irrecoverable in accordance with CIPFA Code of Practice. The debts as detailed in this report would be more than 6 years old with no prospect of recovery and the appropriate action to take is to write off such debts. It is good financial practice to write off such debts and focus resource collectible debts.

The CIPFA Code of Practice confirms that debts should be written off at the point they are judged to be uncollectible, and so to carry high levels of debt to be written off does not accord with good accountancy practices.

Should the circumstances causing the write off change in any particular case, recovery action should be recommenced with the amount being written back onto the Council's systems and accounts for collection.

## **Equalities**

Before writing off debt, the Council will satisfy itself that all reasonable steps have been considered to collect it and that no further recovery action is possible or practicable. It will consider the age, size, and types of debt, together with any other factors that it feels are relevant to the individual case. All write-offs are dealt with in the same fair and consistent way in line with equality and diversity issues.

## **Climate change**

This report contains no proposals that would impact on the Council's commitment to Climate Change.

## **Appendices**

Appendix A: Performance Tables

## **Background papers**

None.

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