

# Debt Improvement Plan and Summary of Debt Write Offs

## Strategy & Resources Committee – 30<sup>th</sup> June 2023

Report of: Mark Hak-Sanders (Chief Finance Officer 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 2022-23.

The report notes the requirement to seek member approval for any write off over the value of £10,000. The write-offs requiring Member 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 the Committee notes:

- (i) the positive steps being taken and improvements made in the recovery of outstanding debt
  - (ii) the write offs individually less than £10,000 of £238k, the majority of which relate to debts over 5 years old, with some in excess of 15 years old
  - (iii) that two write offs over £10,000, totalling a further £33k, require committee approval and are presented as part of a Part 2 paper.
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## **Reason for recommendation:**

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 several years. The report also commits to an annual update on this position to provide Member oversight in future.

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## **Debt Improvement Plan Update**

1. On 30<sup>th</sup> June 2022, the Committee approved a Debt Improvement Plan, with up to £50k available to fund additional resourcing. This report updates on the work set out in that plan, as context for what should become an annual debt update and write-off report. The two phases set out in that report were:
  - Phase 1: prioritise outstanding sundry debt and investigate straightforward recovery in other areas. Provide assurance that further recovery action across all debt types is likely to be self-funded. The temporary resource (up to £50k) will address the immediate capacity to review outstanding debt and continue the implementation of more robust debt collection process across the services.
  - Phase 2: Subject to the outcomes of Phase 1; to provide a further time-limited resource to tackle the outstanding debt across the other debt streams, focussing on recovery where appropriate, constrain any write-offs and to engage in an opportunity being explored with the County Council to increase collection of Council Tax and Business Rates.
2. Despite repeated attempts, securing a temporary resource to progress Phase 1 has proved challenging, with recruitment efforts not providing the experience necessary to take forward this work. As a result, the £50k remains largely unspent, although an element will be used to support additional debt recovery work in Legal Services. Officers are considering whether alternate investment would offer a better return for the Council, including software solutions to enable more straightforward payment and/or to establish a single view of debtors across multiple systems. This will be subject to a future report to Committee.
3. Work on exploring Council Tax and Business rate collection opportunities has continued with the County Council and Surrey Districts through the establishment of a Revenues and Benefits working group. This is supported locally by the recruitment of an Inspector post to work across Tandridge District and Reigate and Banstead Borough Council areas.

4. Although recruitment has not been possible, improving the Council's approach to debt recovery has been a high priority and has been delivered with existing expertise and resource.
5. A continuous improvement approach has been developed across Exchequer Services, Finance, Legal Services and the Corporate Debt Unit in Revs and Bens, with several improvements being delivered in 2022-2023. The main areas of improvement in 2022/23 are as follows:
  - Embedding of a regular Sundry Aged debt report
  - Quarterly reporting across all debt types to Committee
  - Implementation of joint working across departments to ensure that services understand the debt position for their areas
  - Debt recovery workshops to:
    - review outstanding debts and next actions
    - map and review current processes and routes to recovery
  - Implementation of weekly reminder runs
  - Revised procedure documents
  - Implementation of annual write off report (presented here)
  - Improved reporting
  - Fraud awareness training and strengthened processes, including joint working with Reigate and Banstead District Council
  - Review of up-front payment options across the council to identify services where payment can be made prior to delivery and increases the Council income and decrease recovery efforts.
6. Future improvements planned 2023-2024
  - Continued joint working across the Council
  - Review of software solutions for 'One customer view'
  - Review of letter templates
  - Workshops to identify inefficiencies within current processes
  - Best practice training workshops
  - Continuous improvement activity within Agresso
  - Continued development of reporting
  - Electronic despatch and smart forms
  - Customer house-keeping exercise
  - Increase direct debit collection rates.
7. The work undertaken during the course of 2022/23 has identified that historic debt has accumulated on the balance sheet, without the discipline of an annual debt report to the Committee to review. In order to prevent a recurrence of this, Officers will bring a similar report to Committee towards the end of each financial year to allow scrutiny of the proposed write-offs and to ensure that unrecoverable debts are not allowed to persist on the balance sheet. Further detail for 2022/23 is set out, below. Although the values presented are significant, the majority are not General Fund related, and a bad debt provision mitigates any detrimental impact on the revenue budget.

## Summary of Annual Debt Write Offs

8. The Council's budget for 2022/2023 stands at £11.351m for the General Fund and £17.207m Housing Revenue Account. This gives a total annual budget of £28.558m, providing context to the proposed write offs. In addition, a further c.£18m of Housing Benefit payments are made each year.
9. 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.
10. 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
11. 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 the 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.
12. Write off is only considered as a last resort and when all cost-effective recovery options have been taken.
13. This report covers write offs in respect of Housing Benefit overpayment, Housing Revenue Account Debt and Sundry Debts.
14. The total number and value of debts to be written off during 2022/23 is 414, totalling £271,893.89. However, these debts have accumulated over many years and are therefore disproportionately high for 2022/23. Of these:
  - £18,097.56 relate to the General Fund- This represents 0.2% of the Council's overall budget.
  - £211,440.02 relate to Housing Benefit Overpayments – This represents 1.17% of the annual Housing Benefit payments for a single year, however these have accumulated over a 17-year period
  - £42,356.31 relates to the Housing Revenue Account – representing 0.2% of annual HRA spend.

15. 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>
General	111	£18,097.56	£163.04
Housing Benefit Overpayments	247	£177,877.96	£720.15
HRA	56	£42,356.31	£756.36
<b>Total</b>	<b>414</b>	<b>£238,331.83</b>	<b>£559.63</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>
Housing Benefit Overpayments	2	£33,562.06	£16,781.03
<b>Grand Total</b>	<b>416</b>	<b>£271,893.89</b>	<b>£653.60</b>

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

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

<b>Year</b>	<b>General</b>	<b>Housing Benefit Overpayment</b>	<b>HRA</b>	<b>Total</b>
2002-2010	£22.24	£26,839.95		£26,862.19
2010-2015	£2,764.88	£117,280.28		£120,045.16
2016-2020	£11,424.37	£63,924.32	£10,226.86	£85,575.55
2020-Present	£3,886.07	£3,395.47	£32,129.45	£39,410.99
	<b>£18,097.56</b>	<b>£211,440.02</b>	<b>£42,356.31</b>	<b>£271,893.89</b>

17. In addition to the above, collection fund write-offs which are subject to separate governance are as follows for 2022/23 (to-date). These have a minor effect on the Council's share of the collection fund, covered by the allowance for non-collection:
- Council Tax - £13,274.04 (Of which TDC impact is c.11% / £1,460)
  - Business Rates - £4,797.87 (Of which TDC impact is c.40% / £1,919)
18. 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 instigation of an annual report to this Committee, signals that the Council has a tighter grip on its debt position, recovery practices and intends to do further work to limit the number and value of future write-offs.
19. Further work is necessary between this committee meeting and the 2022/23 outturn report to finalise the position for the financial year, and set out full performance in debt recovery. The main debt affecting the General Fund is sundry debt, performance against which is set out in Appendix A. This shows an improving position for the level of outstanding debt and the provision required at year end. Changes in the provision is the key indicator of performance as it reflects the General Fund budgetary impact.

## **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. Whilst the write-offs for 2022/23 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.

Further work is necessary to finalise the year-end position for HRA and HBOP debts, and this will be reported to Committee as part of the 2022/23 outturn report on the 29<sup>th</sup> June 2023.

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

At present, in respect of the amounts listed in the report there are no further legal implications, associated with the debt and associated/additional debt recovery operations will cease. Until a decision has been made by the Committee, debts will remain legally due to the Council. Should the circumstances causing the write off change in any particular case, recovery action should be recommended with the amount being written back onto the Council's systems and accounts for collection.

## **Equality Implications**

The Council's approach to dealing with debtors remains fundamentally unchanged in terms of its statutory obligations. Officers continue to promote the support that is available to vulnerable debtors and encourages engagement with vulnerable debtors who may potentially have tried to ignore their debts.

## **Climate change**

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

## **Appendices**

Appendix A: Performance Table

## **Background papers**

None

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