

## LONDON BOROUGH OF HAMMERSMITH & FULHAM

**Report to:** Councillor Rowan Ree, Cabinet Member for Finance and Reform

**Date:** 21/02/2024

**Subject:** Collection of Arrears for Council Tax and Business Rates

**Report author:** Jamie Mullins, Assistant Director Revenues, Corporate Services

**Responsible Director:** Nicola Ellis, Strategic Director of Corporate Services

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### SUMMARY

There has been a significant increase in debt over the past 3 years due to reduced recovery action during the Covid-19 pandemic and the pivoting of the Council's limited resources to focus on emergency responses to both the pandemic and cost of living crises.

In line with the council's Ethical Debt Collection policy, since the start of 2023, the team have focused on restarting courts, increasing in-year collection and the single person discount review.

This business case proposes establishing a dedicated team over the next 3 years to drive down historic arrears and increase collection across both Council Tax and Business Rates of in year and prior year debts.

This will deliver increased cash as well as reduce the need for further bad debt provisions and deliver fairness by ensuring that those that can pay, do pay.

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### RECOMMENDATIONS

1. To agree one off revenue funding of up to £1.254m (over a period of 36 months) to support a targeted reduction in Council Tax and Business Rates arrears, to be funded from the income generated via release of bad debt provision where more debt in arrears is collected, noting potential GLA contribution of up to 30% of request (to be confirmed)
  2. To note and agree the proposed approach to income recovery and enforcement.
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Wards Affected: All

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<b>Our Values</b>	<b>Summary of how this report aligns to the H&amp;F Values</b>
Building shared prosperity	Continued collection of arrears enables the Council to fund essential services and projects which benefit all residents
Creating a compassionate council	We continue to lead on Ethical Debt collection by working closely with vulnerable residents and not employing Enforcement Agents for the collection of council tax from those that cannot pay
Doing things with local residents, not to them	As part of the Council's Ethical Debt Policy, we have meaningful conversations and build relationships with our residents with access to financial and debt advice
Being ruthlessly financially efficient	Collection of arrears is vital to ensure that the Council can meet its funding targets
Taking pride in H&F	The collection of outstanding arrears allows the Council to ensure that all funds recovered are reinvested into local projects and makes Hammersmith and Fulham an attractive place to live and do business in.

## **Financial Impact**

3. This report requests investment of up to £1.254m over a three year period to fund a dedicated team to reduce Council Tax and Business Rate arrears. This will be funded eventually from the bad debt provision that is released as a result of collection of debt in arrears but, because of the timing lag associated with Collection Fund accounting (which effectively operates a year in arrears), will be funded temporarily by the Collection Fund smoothing reserve. There will be two key financial benefits.
4. Firstly - It is expected that this team will reduce historic arrears for both Council Tax and Business Rates by 5% year on year (starting from 1 April 2024). If debt levels reduce, the Council can reduce the amount held in bad debt provision against this debt by approximately £5.5m over the 36 month project period (with debt levels where they stand). This is one-off income and a prudent estimate.
5. Secondly – the increasing of staff capacity will enable greater focus on in-year collection. This will help to limit accumulation of further debt, and associated costs of this (via provision and debt recovery).
6. Progress against this investment will be monitored through the Council's Corporate Debt Board, with a review of return on investment after 12 months. If the arrears have reduced by less than the investment after 12 months, the project (and investment) will be reviewed.
7. The Council is in dialogue with the Greater London Authority regarding a contribution to this additional investment of 30% (£375k or £125k a year), given the GLA should see an improvement in its share of both Council Tax and Business Rates income recouped via this proposal. This has not been finally

confirmed but any contribution (once confirmed) would reduce LBHF's investment by the same amount.

8. The Council's Financial Regulations (section B.65), require that any requests for use of reserves must be made by the appropriate SLT director in consultation with the Chief Executive, the Director of Finance and the Cabinet Member for Finance and Commercial Services. The Director of Finance has been consulted via this report (see finance implications), the Chief Executive was consulted on 17 January 2024 and the Cabinet Member for Finance and Commercial Services is the decision maker.

*Implications completed by Christopher Harris, Head of Finance (Accountancy, Systems, Tax), 15 January 2024*

*Verified by James Newman 15 January 2024*

## **Legal Implications**

9. The Legislation that covers Council Tax includes Local Government Finance Act 1992 and Tax (Demand Notices) (England) Regulations 2011. Liability to pay Council Tax is determined by the Council Tax (Administration and Enforcement) Regulations 1992. This gives local authorities the right to demand Council Tax which is used to fund essential local services.
10. Business rates are covered by the Council Tax and Non-Domestic Rating (Demand Notices) (England) Regulations and are the way that those who occupy non-domestic property contribute towards the cost of local services.
11. Council Tax and Business Rates are essential sources of revenue so authorities are given these and other powers to recover arrears from households and businesses that do not pay on time. The recommendations in the report will contribute towards the vital collection and enforcement.

*Jade Monroe, Chief Solicitor, 18 July 2023.*

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## **Background Papers Used in Preparing This Report**

None

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## **DETAILED ANALYSIS**

### **Proposals and Analysis of Options**

12. The combined total historic arrears for Business Rates and Council Tax is £93.5m. Of this debt, the Council share is £39.8m. This debt is not covered by statutory limitations and has therefore accrued over many years.
13. In year collection is currently projected to improve in 2023/24 but arrears will continue to accrue on a yearly basis and the Revenues Management Team are

keen to target and recover as much of these arrears as possible to increase income collection and ensure fairness in local taxation. However, in order to achieve this, a dedicated team is required which will supplement the business-as-usual work of the Revenues Team and focus on historic arrears cases.

14. A targeted exercise will have two benefits:
  - a. The collection of historic debt (above assumed levels) will enable the release of excess historic bad debt provisions as a one-off revenue benefit.
  - b. Improved in-year collection rates will have a beneficial effect on the in-year revenue position by limiting the increase of new bad debt provisions.

### **Improving collection of historic debt**

15. Regarding historic debt, any collection over and above current capacity levels will have an absolute cash benefit to the Council (with associated revenue benefits from increased interest and investment income etc.) The precise revenue benefit is governed by the extent to which historic bad debt provisions can be released.
16. Based on the return from similar projects in other authorities, we estimate that a minimum collection rate of 5% (per annum, and over and above current capacity) is possible within the initial 36-month period.
17. Assuming 5% of the bad debt provision were released this would correspond to an annual one-off benefit of £1.8m, meaning £5.5m in total for the proposed three-year project. It should be noted that due to improved collection for Council Tax already observed in 2023/24, the existing bad debt provision is now in excess of the total debt. It is not unreasonable therefore to assume an increased release of provision – above the core 5% - for this area.

### **Improving the collection rate for current year (2023/24)**

18. It is anticipated that establishing of a team to address historic arrears will improve in-year collection through enabling the existing team to focus on in-year collection. This will help to limit accumulation of further debt, and associated costs of this (via provision and debt recovery).
19. The precise revenue benefit to the Council is complicated by factors such as the Council being in the NDR safety net. The safety net has the effect of mitigating bad losses (amongst other things) and any benefit to the Council from improved recovery on NDR would, in the first instance, be directed to repaying safety net grant. Thereafter the Council would gain in revenue terms.
20. It should also be noted that the revenue benefit above will not necessarily constitute a surplus or a saving insofar as it simply enables the Council to attain its assumed budgeted position. However, to not take action through the proposed programme will give rise to the risk of deficits moving forward.

21. Where the Council can deliver lifetime<sup>1</sup> collection rates above the assumed budgeted position (currently 97% for CTAX and 95% for NNDR), and notwithstanding the complexities of the NNDR safety net, this will generate a saving in budget terms.

### **Resource Requirement**

22. The service has commissioned a detailed analysis of our historic arrears cases to categorise debtors with an assessment of likelihood of recovery. This includes factors such as age of debt, if they still live/operate in the borough, the last known enforcement stage and any previous actions taken and any data that indicates their propensity to pay. This analysis will be available in January 2024 and be updated throughout the intervention as it will form the basis for prioritisation. We also intend to use this project team to historic credits sitting on accounts, tackle rates avoidance, improve data accuracy and pursue Housing Benefit Overpayment arrears.
23. The resources required are set out below together with the rationale:
- 4 recovery officers – 2 on council tax, 2 on NNDR to focus on historic arrears cases, ensuring effective tracing of debtors, decisions on write offs, referrals to debt advice and strong recovery action on those with the propensity to pay including court.
  - 1 x Systems officer – to review credits/debits on old accounts, clean up data quality, ensure property data is accurate and up to date, further opportunities for automation, match debtor data with other data sources to understand propensity to pay and recommended recovery action (e.g. attachment to benefits and/or earnings)
  - 2 x inspectors - physically visit properties (esp NNDR) claiming inoccupation and other discounts, investigate possible rates avoidance, work with valuation office and ensure charges are raised quickly and accurately following completions, for council tax capture information on long term empty, void properties, multiple/irregular occupation, new developments etc
  - Other costs: - tracing costs, legal advice, technology (mobile devices for inspectors, SMS and outbound calling campaigns, capita costs for analytics tool development, contribution to LIFT dashboard to understand propensity to pay), printing and postage.
24. The team will have access to various databases for search and trace activities as well credit references and LOCTA (LA search and trace facility) to help verify financial activity at the properties in question. Cases that are irrecoverable will proceed all the way to write off to ensure we are not holding debts as assets that are not collectible. The full cost of the team is expected to be recovered within 1 year.
25. The Council has a strong provision for bad debt due to delays in writing off unrecoverable debts. As a result, the Council currently has a high value of

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<sup>1</sup> Life-time collection rate being the assumed collection rate for a given year's debt considering some collection will take place in future years; separate from in-year collection which is the in-year collection rate of in-year debt.

debts but also a high value of bad debt provision. This project would rebalance the position by clearing old, unrecoverable debts and ensuring recovery action on those cases with a potential for collection and is likely to lead to a reduction in the need for bad debt provision after year 1. The Council also has significant historic credits that have not been claimed. This team will also review these credits to ensure they are allocated effectively, or decisions taken on whether they should still be held in accounts.

### **Ethical debt collection policy**

26. LBHF seeks to deliver ethical debt collection and has previously publicly committed to not using enforcement agents for residents that owe Council Tax.

27. The Council and team remain firmly committed to ethical, transparent and fair collection processes. The new Corporate Plan commits to *Continue to take an ethical and compassionate approach to council tax debt recovery, and improve our ethical debt collection and outreach advice, whilst acting swiftly to recover taxes and retaining high recovery rates.*

28. The historic arrears team will deliver this commitment through ensuring that no-one who cannot pay is referred to enforcement agents. Instead, the team will work to agree fair and affordable repayment plans and where this isn't possible explore attachment of earnings or benefits. More broadly, we have also developed a draft ethical recovery policy document that if agreed, this team will be delivering including using data to understand propensity to pay, recognising vulnerability and connecting debtors with other forms of support so they can build financial resilience.

29. For those who can pay, the team would be exploring the full range of recovery actions and tracing the 20% of debtors that have moved out of the borough. Where enforcement agents are used, they will fully comply with the code of conduct and best practice requirements.

### **OPTIONS AND RISKS**

30. Do Nothing- If we do not tackle these arrears they will continue to increase, and this will lead to a negative financial impact on the Council and challenges from auditors regarding the high levels of debts and bad debt provision.

31. Implement this proposal – This is the recommended option. We will continue to adapt a holistic approach and act in an ethical manner in ensuring our residents get the right support and assistance.

### **REASON FOR DECISIONS**

32. The current levels of arrears (for the Collection Fund as a whole) for Council Tax and Business Rates are significant at a combined total of £93.5m (£29.3m for Council Tax and £64.2m for Business Rates as at 31 Dec 2023). There has been a significant increase over the past 3 years due to reduced recovery action during the Covid-19 pandemic and cost of living crisis.

33. Increasing income collection will allow for a reduction in the Council's bad debt provisions for both Council Tax and Business Rates, providing the Council with one-off income which will vary from year to year depending on the actual amount collected, but is estimated to be £5.5m for the first 36 months of the enhanced collection scheme.

## **LIST OF APPENDICES**

None