

Write-off of council tax debt relating to current Local Council Tax Support (LCTS) claimants



Cabinet Member for Finance and Commissioning

Date:	6 March 2023
Agenda Item:	N/A
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Key Decision	Yes
Local Ward Members	All

**Cabinet Member
Decision**

1. Executive Summary

- 1.1 The council's approved Local Taxation Debt Recovery Policy sets out the circumstances in which council tax debts can be written off by the council. This includes where:
 - It is uneconomical to pursue the debt.
 - There is financial hardship.
- 1.2 Each financial year the council's debt provision is reviewed, and 100% debt provision is allowed for all outstanding balances older than one financial year.
- 1.3 The council's previous Local Council Tax Support (LCTS) Scheme was introduced in 2013 and required working-age claimants, regardless of their income, to contribute at least 20% towards their council tax liability. Many working-age claimants on lower incomes have struggled to pay their council tax bills as a result and have built up several years' debt.
- 1.4 The council's new income banded Local Council Tax Support (LCTS) Scheme, approved by Full Council on the 28 February 2023, is more generous and allows for up to 100% support for those residents in the lowest income band. As a result, the new scheme will prevent many residents from incurring council tax debt into the future.
- 1.5 Approval is sought to write-off debts owed by those in receipt of LCTS (across all bands) up to and including 31 March 2019 to the maximum value of £244,576.66 (of which £29,349.20 is LDC's share) in accordance with the financial regulations and provisions included in the Local Taxation Debt Recovery Policy. If approved the council will aim to write off the debts by 31 March 2023.

2. Recommendations

- 2.1 That the Cabinet Member for Finance and Commissioning approves the writing-off of debts owed by those in receipt of Local Council Tax Support (LCTS) up to 2018/19 of £244,576.66 on the grounds that it is uneconomical to pursue the debt, or that pursuing the debt could cause financial hardship during the cost-of-living crisis.

3. Background

- 3.1 The council's previous Local Council Tax Support (LCTS) Scheme was introduced in 2013 and required working-age claimants, regardless of their income, to contribute at least 20% towards their council tax liability. As a result, many working age LCTS claimants have struggled to pay their council tax bills and have built up several years' debt.
- 3.2 Where residents are in receipt of benefits (Universal Credit or Housing Benefit), many of them are repaying these debts through an attachment of benefit (AOB), which is where a customer's monthly benefits are reduced at source by between 15% and 25% of their 'standard allowance' to allow the debt to be repaid.
- 3.3 Whilst attachment of benefits (AOBs) are an effective method of recovery, they can only be used once a liability order has been secured, which adds further debt to a customer's account and can cause further financial hardship. The council can also only recover one year's council tax debt from a customer at any one time – in so far as a live AOB prevents any further recovery action on any other council tax debt. A new liability order is needed every year, adding even more debt to a customer's account. In January 2023, the council had £521,000 council tax debt awaiting a new attachment of benefit.
- 3.4 In line with Cabinet set levels, debts below £200 cannot be passed to enforcement agents. Therefore, where a debt is below £200, and an AOB cannot be established, it is very challenging to recover these debts.
- 3.5 The council's new Local Council Tax Support (LCTS) scheme, approved by Full Council on the 28 February 2023, is more generous and allows for up to 100% support for those residents in the lowest income band. As a result, the new scheme will prevent many residents from incurring council tax debt in the future, and had it been in place previously, many current LCTS claimants would not have incurred council tax related debts.

Table 1 Analysis of council debts dating back to 2006/07 and repayments collected between 2021 and 2022

Financial year	LCTS accounts with council tax debt	Age of debt (years)	Estimated* total LCTS related council tax debt 2021	Estimated* total LCTS related council tax debt 2022	% of outstanding debt collected in year	Amount of outstanding debt collected in year
2006/07	2	16	£1,567.64	£1,364.54	13	£203.10
2007/08	2	15	£2,518.84	£2,518.84	0	£0.00
2008/09	2	14	£1,673.14	£1,673.14	0	£0.00
2009/10	4	13	£4,442.71	£4,328.52	3	£114.19
2010/11	7	12	£6,386.15	£5,916.73	7	£469.42
2011/12	8	11	£5,016.75	£4,887.36	3	£129.39
2012/13	12	10	£5,393.98	£5,111.55	5	£282.43
2013/14	44	9	£13,832.11	£12,810.88	7	£1,021.23
2014/15	36	8	£12,418.34	£11,052.03	11	£1,366.31
2015/16	64	7	£19,494.93	£17,932.03	8	£1,562.90
2016/17	103	6	£33,343.74	£31,724.41	5	£1,619.33
2017/18	193	5	£56,798.08	£48,402.09	15	£8,395.99
2018/19	310	4	£111,526.95	£96,854.54	14	£14,672.41
Totals	1705		£274,413.36	£244,576.66		£29,836.70

*Because debts can change daily (either through payment or through being written off for various reasons), the figures included in the table above are maximum amounts of debt remaining.

- 3.6 As shown in table 1, the current estimated rate of recovery of the debts incurred by current Local Council Tax Support (LCTS) claimants, dating back to 2006/2007, is 8% a year. As such it is considered neither administratively practical nor economical to recover. This is because:
- Such debts become more difficult to recover as they get older, and the 8% recovery rate is likely to reduce even further over future years.
 - The administrative cost of managing older debts often outweighs the potential return. (e.g., at a recovery rate of 5% it will take an estimated 10 years to recover up to £10,000).
 - Customers may not clear the debt within their lifetime, requiring them to be written off later.
- 3.7 It is widely recognised that the cost-of-living crisis is disproportionately affecting those on the lowest incomes. By writing off historic debts incurred by Local Council Tax Support (LCTS) claimants (up to 31 March 2019), it will relieve financial pressures/reduce overall debt levels for many low-income households. It will also allow revised payment arrangements to be put in place for more recent debts (incurred post 31 March 2019) and prevent the council from carrying forward significant council tax debt levels that are unlikely to ever be collected in full.
- 3.7 The move will also allow the council to concentrate its wider debt recovery activity on debts that have a higher likelihood to be paid, including the debts of customers who are not in receipt of LCTS, NNDR debts and sundry debts.
- 3.8 Should any payments towards the debts that have been written-off be received following the write-off process, the debts can be written back onto the system and the money retained as payment towards those debts. If fraud is identified, individual debts can be written back on to allow for collection.

Alternative Options	<ul style="list-style-type: none"> • The council continues to pursue the outstanding LCTS debts. • The council writes-off a different profile of outstanding LCTS debt years.
Consultation	No consultation has taken place. The council is not required to consult with its precepting partners in relation to write-offs as 100% debt provision is allowed for all outstanding debt balances older than one financial year. Whilst the s151 officer has delegated approvals to write-off individual debts up to £1,000, cabinet member approval is sought to deliver the wider write-off exercise.
Financial Implications	Up to £244,576.66 of uncollected LCTS debt to be written off. The council maintains a council tax bad debt provision within the Collection Fund with each organisation contributing to the provision based on their proportion of the Council Tax bill (Lichfield DC's share including the parishes would be c12% or c£29,349.20). Each financial year the council's bad debt provision is reviewed by the Assistant Director – Finance and Commissioning (Section 151), and 100% debt provision is allowed for all outstanding balances older than one financial year. Therefore, the action to write off the debts will have no additional financial impact on the council's Medium Term Financial Strategy.
Approved by Section 151 Officer	Yes
Legal Implications	None
Approved by Monitoring Officer	Yes

Contribution to the Delivery of the Strategic Plan	The proposal to write-off historic LCTS debt supports the council's strategic ambition of: <i>'Being a good council that is financially sound, transparent and accountable as well as being responsive and customer focused.'</i>
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Equality, Diversity and Human Rights Implications	It is widely recognised that the cost-of-living crisis is most affecting those on the lowest incomes. By writing off historic debts (incurred prior to 31 March 2019) incurred by Local Council Tax Support (LCTS) claimants, it will relieve financial pressures/reduce overall debts levels for many low-income households.
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Crime & Safety Issues	No specific issues.
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Environmental Impact	No specific impacts.
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GDPR / Privacy Impact Assessment	No specific impacts
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	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
A	The resourcing requirements for the processing are insufficient Revenues, Benefits and Corporate Debt Recovery Service Manager	Likelihood: Yellow Impact: Yellow Severity of Risk: Green	Whilst a target date has been set to complete the task there are no impacts if this takes an extended period to deliver. Recovery action can be held against the debts identified to reduce the impact on claimants.	Likelihood: Green Impact: Green Severity of Risk: Green
B	Failure to manage debts Revenues, Benefits and Corporate Debt Recovery Service Manager	Likelihood: Green Impact: Green Severity of Risk: Green	Proactive debt management in accordance with the Debt Recovery Policy mean these debts have become uneconomical to pursue and should be written off.	Likelihood: Green Impact: Green Severity of Risk: Green
B	Financial loss to the authority Revenues, Benefits and Corporate Debt Recovery Service Manager	Likelihood: Yellow Impact: Yellow Severity of Risk: Green	The council has a debt provision of 100% for all outstanding debts. Collection of this debt is not accounted for in current budgets.	Likelihood: Green Impact: Green Severity of Risk: Green

Background documents	<ul style="list-style-type: none"> • Appendix A Bad debt provision (attached)
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Relevant web links	<ul style="list-style-type: none"> • Local Taxation Debt Recovery Policy – read policy.
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Appendix A

Council Tax Bad Debt Provision 31 March 2022

This table shows the bad debt provision included in the Collection Fund budget. The council has £3.668m of council tax arrears and £3.422m of bad debt provision. Therefore, 100% of the proposed debt write-off (up to 31 March 2021) is covered by the council's bad debt provision.

Arrears Profile for Council Tax @ 31 March 2022

Year	Bill	Reminder	Final	Summons	Liability Order	2021/22	Final Accounts	
							Bad Debt %	Provision
2003-04	54.88					£54.88	100%	(£55)
2005-06	0.63				2,191.92	£2,192.55	100%	(£2,193)
2006-07	210.05					£210.05	100%	(£210)
2007-08					4,154.70	£4,154.70	100%	(£4,155)
2008-09	4.32				6614.91	£6,619.23	100%	(£6,619)
2009-10					11,375.32	£11,375.32	100%	(£11,375)
2010-11					19,365.20	£19,365.20	100%	(£19,365)
2011-12					25,210.25	£25,210.25	100%	(£25,210)
2012-13					32,414.98	£32,414.98	100%	(£32,415)
2013-14	211.46				51,894.93	£52,106.39	100%	(£52,106)
2014-15	67.48	14.72	203.90		62,468.43	£62,754.53	100%	(£62,755)
2015-16	614.88	13.63	59.98		90,793.18	£91,481.67	100%	(£91,482)
2016-17	969.72	108.59	441.23		124,113.02	£125,632.56	100%	(£125,633)
2017-18	943.81	298.05	885.69		183,670.35	£185,797.90	100%	(£185,798)
2018-19	2,189.10	1,153.51	1,515.85	1,006.75	291,069.37	£296,934.58	100%	(£296,935)
2019-20	7,544.94	1,098.03	6,700.82	1,505.29	450,344.69	£467,193.77	100%	(£467,194)
2020-21	23,506.41	7,189.81	12,515.92	4,033.36	586,965.77	£634,211.27	100%	(£634,211)
2021-22	398,940.10	49,804.35	10,365.68	125,422.89	1,060,915.62	£1,645,448.64	85%	(£1,399,454)
Adjustment to balance to RRV 403	5,067.70					5,067.70	100%	(£5,068)
						£3,668,226.17		(£3,422,232)

