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**Report to:** Audit & Governance Committee **Date of Meeting:** 14 December 2011

**Subject:** Doubtful Debt Policy - Update Report

**Report of:** Head of Corporate Finance & ICT

**Wards Affected:** All

**Is this a Key Decision?** No **Is it included in the Forward Plan?** No

**Exempt/Confidential** No

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### **Purpose/Summary**

To provide the Committee with information about the current policies relating to the provisions made in the annual accounts against general and Council Tax debts and an update of the current review of those policies.

### **Recommendation(s)**

It is recommended that the Audit and Governance Committee note the report.

### **How does the decision contribute to the Council's Corporate Objectives?**

|   | <b><u>Corporate Objective</u></b>   | <b><u>Positive Impact</u></b> | <b><u>Neutral Impact</u></b> | <b><u>Negative Impact</u></b> |
|---|---|-------------------------------|------------------------------|-------------------------------|
| 1 | Creating a Learning Community   |                               | √                            |                               |
| 2 | Jobs and Prosperity   |                               | √                            |                               |
| 3 | Environmental Sustainability  |                               | √                            |                               |
| 4 | Health and Well-Being   |                               | √                            |                               |
| 5 | Children and Young People   |                               | √                            |                               |
| 6 | Creating Safe Communities   |                               | √                            |                               |
| 7 | Creating Inclusive Communities  |                               | √                            |                               |
| 8 | Improving the Quality of Council Services and Strengthening Local Democracy |                               | √                            |                               |

### **Reasons for the Recommendation:**

The report follows a request made by the Committee at its last meeting

**What will it cost and how will it be financed?**

**(A) Revenue Costs**      None at this stage (FD1204)

**(B) Capital Costs**      None

**Implications:**

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

|   |                              |
|---|------------------------------|
| <b>Legal</b>  | <b>None</b>                  |
| <b>Human Resources</b>                              | <b>None</b>                  |
| <b>Equality</b>                                     |                              |
| 1. No Equality Implication                          | <input type="checkbox"/> YES |
| 2. Equality Implications identified and mitigated   | <input type="checkbox"/> NO  |
| 3. Equality Implication identified and risk remains | <input type="checkbox"/> NO  |

**Impact on Service Delivery:      NONE**

**What consultations have taken place on the proposals and when?**

The Head of Corporate Legal Services (LD558/11) has been consulted and any comments have been incorporated into the report.

**Are there any other options available for consideration?**

NONE

**Implementation Date for the Decision**

N/A

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**Background Papers:**

None.

## 1.0 Background

- 1.1 At its meeting on 28 September, the Committee considered the Council's Final Accounts for 2010/11 and resolved that a report be submitted to this meeting on the current policy for bad debt provision and the implications of changing components of the policy.

## 2.0 Current Doubtful Debts Policies

- 2.1 As reported in the final accounts report, the Council's current policy is to make provision against a proportion of any debts that are considered to be irrecoverable. This assessment is assessed in part upon the basis of the age profile of outstanding debts and also upon a risk of that specific debts may prove to be irrecoverable.
- 2.2 Separate provisions are made for general debts owed to the Council (sundry debtors) which directly impinges upon the Council's budget (General Fund) and Council Tax debts. The latter provision not only has implications for the Council's budget but, as the Council Tax doubtful debt provision is made and adjusted via the Collection Fund, then variations to it have implications for the Fire and Police Authorities because they submit their annual precept upon the Collection Fund.
- 2.3 In terms of general debts the provision tends to fluctuate from year to year because, in the main, debts over six years old are deemed to be unenforceable (statute barred). It is also affected by the level of write-offs in the year. The following table shows the level of total general debts and the amount of doubtful debt provision made in the accounts over the last three financial years:-

| Year to 31 March | Total general debts at y/e | Provision |
|------------------|----------------------------|-----------|
| 2011             | £13.845m                   | £1.575m   |
| 2010             | £15.813m                   | £1.496m   |
| 2009             | £13.194m                   | £1.723m   |

- 2.4 The provision is calculated by individually assessing the recoverability of all debts over £10,000, regardless of the age of the debt. For debts under £10,000, the provision is calculated as a set percentage based on the age of the debt. For debts deemed to be unrecoverable a 100% provision is made.
- 2.5 The processes for raising and recovering general debts is as follows:
- I. Invoices are raised locally across the Council. The vast majority of debts are paid without any further action.
  - II. Should any further action be taken, it will be initiated by arvato's central debts team or, in the case of school debt, by the schools themselves.
  - III. All unpaid invoices are subject to automatic system generated reminders at pre determined intervals, invoices still unpaid after this go into a review process.
  - IV. Action taken on outstanding debts will then depend on the individual debtors' circumstances. Further action can include legal action and referral to debt collection and tracing agencies. It can take a long time before all recovery avenues are exhausted and recovery action must take account of cost factors and value.

- 2.6 Council Tax debts are not statute barred and remain “live” from a collection perspective. However, on the grounds of prudence, the Council has traditionally assessed that all debts older than six years be 100% provided for and that any amounts collected in respect of such debts in any particular year are treated as a bonus in terms of the mechanics for accounting for the provision within the Collection Fund. With respect to more recent debts assessments are made in percentage terms of the recoverability of debts depending upon the value of the debts at particular recovery stages in each year.
- 2.7 Unlike the provision for general debts, that for Council Tax shows an increasing trend as the comparison for the last three years in the table below shows:-

| Year to 31 March | Total Council Tax debts at y/e | Provision |
|------------------|--------------------------------|-----------|
| 2011             | £12.955m                       | £1.861m   |
| 2010             | £12.061m                       | £1.775m   |
| 2009             | £12.020m                       | £2.776m   |

The significant reduction in the provision between 2009 and 2010 reflects the fact that there were a catch up in the number of write-offs during 2009/10 that resulted in a reassessment of the amount of provision required.

- 2.8 The processes for raising and recovery of Council Tax are largely prescribed in statute and the Council’s computer systems are designed to conform to the prescribed requirements and are managed through aravato’s Council Tax teams. Collection agents and tracing agents are also used in appropriate cases.

### **3.0 Options for the future**

- 3.1 The Finance department is currently undertaking a review of our debt management and recovery arrangements. This includes a comparison with other Metropolitan and Unitary local authorities to establish the various methods used for writing off debt and assessing provisions for doubtful debts in the Final Accounts.
- 3.2 Internal debt raising processes are being reviewed together with staff from arvato to seek efficiencies and derive cashable savings. The next stage will be a review of the current debt chasing processes to ensure that income is maximised in the current economic climate.
- 3.3 In parallel with this, work is being undertaken by the Internal Audit team by using customer profiles to more effectively target high risk areas for potential fraudulent benefit claims in the first instance and thereby avoid the need to invoke debt recovery procedures at some future date. To date this has focused primarily on overpaid benefit and Council Tax recovery but will be extended in due course to general debts.