
Report to: Audit & Governance Committee **Date of Meeting:** 28 March 2012

Subject: Review of Doubtful Debt Provision – Council Tax / Sundry Debts

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

Purpose/Summary

To identify proposed new methodologies for determining the provision for doubtful debts for Council Tax and Sundry Debts.

Recommendation(s)

Audit & Governance Committee is recommended to: -

- i) Note the proposed methodology for determining the target level of provision for Doubtful Debts for Council Tax and Sundry Debts; and
- ii) Note that the Council will move toward the achievement of these target levels, as resources allow.

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

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

Reasons for the Recommendation:

To ensure that the provisions for doubtful debts of Council Tax and Sundry debts are calculated on a prudent basis.

What will it cost and how will it be financed?

(A) Revenue Costs

Changes to the Council Tax Doubtful Debt provision will be financed from the Collection Fund. This Account is separate from the General Fund (it collects Council Tax income on behalf of Sefton and the Police and Fire and Rescue Authorities), However, deficits on this Account have to be financed, either from future surpluses, or directly from the Revenue Accounts of the above bodies.

Additional contributions to the Sundry Doubtful Debt provision will come directly from the Revenue Account.

(B) Capital Costs

No implications.

Implications:

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

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

Impact on Service Delivery:

None.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance & ICT has been involved in the preparation of this report. (FD 1455/12)

The Head of Corporate Legal Services (LD 806/12) have 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

Immediately following the normal call-in period.

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Background Papers:

None

1. Introduction

- 1.1. Members will recall a report to this Committee on 28 September 2011, which considered the approval of the Statement of Accounts for 2010/11. Contained within that report, the Council's external auditors, PricewaterhouseCoopers (PwC), argued that the level of provision for Doubtful Debts should have provided for a significantly greater proportion of the receivables balance. At that time, no action was taken. However officers indicated that a review would be undertaken prior to setting the level of Doubtful Debt provision for the 2011/12 Accounts.
- 1.2. A review of the Doubtful Debt provision for both the Council Tax Debtors and Sundry Debtors has now been undertaken. Comparisons of both methodology and percentage set asides in other authorities have been used to ascertain whether any changes to Sefton's approach is required. This report sets out the findings of that review and the proposals for the future levels of Doubtful Debt provision.
- 1.3. It should be noted however, that the set aside of resources for doubtful debts, does not necessarily mean that it will result in all such debts defaulting.

2. REVIEW OF DOUBTFUL DEBT PROVISION

2.1 Council Tax Debt Outstanding

- 2.1.1 The level of Doubtful Debt provision within the 2010/11 year end accounts was £1.86m, whilst PwC suggested a further judgemental increase to approximately £4m.
- 2.1.2 As part of the review of the methodology used for setting the provision, contact was made with other local authorities. It is evident that there is little consistency in the methodologies used between authorities, with a wide range of levels of provisions being in existence. Sefton is positioned toward the lower end of the range being used. It should be noted that at a number of authorities are considering what the appropriate level of provision should be, including the potential reduction in the level of provision.
- 2.1.3 Given our position in relation to other authorities, it is proposed to adjust the provision percentages to a higher level in order to accord with the need to be more prudent. The proposed methodology considers the stages of the collection process that the debt has reached (e.g. summons, liability order etc,) and making prudent assumptions as to the likely level of collectability for each category. The proposed percentage in older years is no longer at 100%, as part of the debt will be collected by attachment of earnings, benefits or other special arrangements.

2.1.4 The suggested percentage levels of provision can be compared to those previously used by the Council in 2010/11 year end accounts: -

Year	Current Percentage	Proposed Percentage
1997/1998	100%	91%
1998/1999	100%	87%
1999/2000	100%	89%
2000/2001	95%	86%
2001/2002	85%	85%
2002/2003	50%	86%
2003/2004	40%	84%
2004/2005	25%	69%
2005/2006	20%	58%
2006/2007	18%	49%
2007/2008	15%	38%
2008/2009	13%	31%
2009/2010	10%	22%
2010/2011	5%	6%

2.1.5 As can be seen, the methodology increases considerably the level of provision across previous years. Applying the new methodology to the outstanding debt position as at 31/03/2011 suggests a bad debt provision that is significantly higher than is currently provided i.e. £3.98m, compared to £1.86m.

2.1.6 A similar exercise has been undertaken as of the position at February 2012 (to broadly indicate what would be the target for 2011/12), where the revised methodology would suggest a provision of £4.10m.

2.1.7 This revised calculation is one that would be continually reviewed to ensure its robustness. However, in terms of identifying a methodology to be more prudent, and therefore increasing resources to be set aside, the Council is faced with the reality of needing to identify enough resources to actually implement this change. With regard to Council Tax debts, the provision for doubtful debts is made from the Collection Fund i.e. a separate account which monitors the collection of such income on behalf of the Council and the Police and Fire Authorities. The forecast year-end financial position of the Collection Fund indicates that there may well be a surplus, which would enable some additional resources to be set aside in 2011/12 to move toward the proposed methodology. As such, whilst a new methodology can be put in place to ascertain a more prudent level of provision, it is anticipated that this will need to be staged over the next few years. This staggered approach is similar to other authorities who are proposing to increase their provisions.

2.2 **Sundry Debts Outstanding**

- 2.2.1 The level of Doubtful Debt provision within the 2010/11 year end accounts was £1.6m, whilst PwC suggested a judgemental increase of this figure by a further £2.1m.
- 2.2.2 The provision is currently calculated by individually assessing the recoverability of all debts over £10,000. This methodology is considered robust and will result in a prudent level of resource being set aside. Consequently, it is proposed to continue this process in future years.
- 2.2.3 With regard to debts relating to community care costs, which are to be funded from the sale of property belonging to the people receiving care, these are currently assumed to be collectible (in the longer term). As such, no doubtful debt provision is set aside for such cases. It is not proposed to amend this policy at the present time.
- 2.2.4 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.
- 2.2.5 The Council has contacted other authorities to ascertain what approaches are taken to calculating their provision. In most cases a similar methodology is used. However, most other authorities are generally more prudent, as the percentages applied are generally higher than those used by Sefton. Percentages may vary because of the recoverability of the debts outstanding. Authorities with lower collection rates would need to apply higher percentages. Also those authorities that write-off debt earlier would apply lower percentages (although the cost of increasing the provision would be higher as more is written off).
- 2.2.6 Due to the Accounts Receivable module of the Financial Management System being a 'live' system there is no historic information available as to the amount of debt recovered over time relating to each year. It is therefore difficult to establish whether the percentages used by Sefton are adequate for the level of debt collected. However, arrangements have now been put in place to allow the Council to monitor on a regular basis the amount of debt recovered relating to each year.
- 2.2.7 Given that Sefton's annual percentages are, at face value, less prudent, it is therefore deemed appropriate to adopt higher percentages for debt still outstanding from previous years in line with those used by many other authorities.

2.2.8 The following Table identifies the position of the proposed methodology in determining a more prudent level of Doubtful Debt provision (for outstanding debt below £10,000), compared to the current percentages.

Year	Current Percentage	Proposed Percentage
2002/2003	25%	95%
2003/2004	25%	95%
2004/2005	25%	95%
2005/2006	25%	95%
2006/2007	25%	90%
2007/2008	25%	90%
2008/2009	25%	80%
2009/2010	25%	50%
2010/2011 - 5-12 months	10%	40%
2010/2011 - 4 months	5%	25%
2010/2011 - 0-3 months	0.5%	5%

2.2.9 The Council will monitor the percentage of debt recovered over time and look to adjust the percentages used in line with this experience.

2.2.10 The cost of increasing the provision is estimated to be in the region of £1.7m. The Doubtful Debt provision for sundry debts is financed from the Council's revenue budget, rather than the Collection Fund. As such the impact falls solely on Sefton, and not the Police and Fire Authorities. However, as with the Council Tax provision, the ability to set aside additional resources in 2011/12 is dependent upon what can be afforded in the year end position of the Council. Whilst the actual increase in set aside resources cannot be confirmed at the present time, it is anticipated that a significant move toward the new targeted amount can be achieved.

3. Summary

3.1. The review of the methodologies for determining both doubtful debt provisions has concluded that a more prudent approach is required.

3.2. The proposal is to move as quickly, yet prudently, as possible to the new levels. However, at the present time, the judgement is that the sundry debts provision does not need to be at the level suggested by PwC in their audit report last September. Nonetheless, the level of both provisions will continue to be reviewed in the light of changes in circumstances, including the likelihood of additional write-offs and the potential impact of the economic climate on the recovery levels.