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**Report to:** Audit & Governance

**Date of Meeting:** 27 June 20112

**Subject:** Doubtful Debt Provision - National Non-Domestic Rates

**Report of:** Head of Corporate Services & 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 inform Members of the methodology for arriving at the doubtful debt provision for Business Rates.

**Recommendation(s)**

Audit & Governance Committee is requested to note the methodology for the calculation of the provision.

**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		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 Audit & Governance Committee are fully apprised of the methodology used.

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

**(A) Revenue Costs**

None currently, as the provision is funded from central government.

**(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>Human Resources</b>	
<b>Equality</b>	
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. (FD1623/12)

Legal Services (LD958/12) have been consulted and any comments have been incorporated into the report.

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

No.

**Implementation Date for the Decision**

Immediately following the normal call-in period.

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**Background Papers:**

NNDR Doubtful Debt Provision working papers..

## **1 BACKGROUND TO THE REPORT**

- 1.1 A report upon the methodology for calculating the doubtful debt provision for Council Tax and Sundry Debtors was presented to Audit & Governance on 28 March 2012. At that meeting a request was made for a further report to be presented in June, regarding the methodology used to calculate the doubtful debt provision for National Non-Domestic Rates (Business Rates). The current methodology is set out below.
- 1.2 Presently, the Council acts as an agent of central government regarding the financial arrangements for managing National Non-Domestic Rates (NNDR). With specific regard to the collection of income and the potential shortfalls that need to be provided for doubtful debts, central government currently indemnify local authorities for this.
- 1.3 With effect from 1 April 2013, a new process is being introduced by the Government to determine how much a Council receives from NNDR i.e. Business Rates Localisation. Details of how the scheme will operate have yet to be finalised; This is mentioned briefly below. However, given the uncertainty as to the new arrangements, no account has been taken of this issue in this report.

## **2 METHODOLOGY**

- 2.1 The current methodology involves, firstly, providing for 100% of all debts greater than 7 years old.
- 2.2 The second stage consists of analysing debt by year, by the various stages of the collection process that debt is passed through. These are as follows:

Demand  
Reminder  
Final  
Liability order  
14 day notice  
Bailiff  
Returned from Bailiff  
Committal Pending  
Statutory Demand  
Debt Collection Agency  
Returned from Debt Collector

The set-aside for doubtful debts is then determined by applying a percentage to the debt outstanding at these stages. This varies by year e.g. liability order debts outstanding from 2007 are 75% provided for, whilst those from 2006 are 90% provided for. The percentages used reflect the professional judgement of the Revenues Manager within Arvato Government Services; Council officers review the figures each year to ensure they are reasonable. A table of the percentages by stage, and year is included at [Appendix A](#).

The fact that some debts are 100% provided for in the doubtful debt provision, does not mean that organisations in these categories are not pursued to collect the income. All avenues are followed until the debts deemed irrecoverable are approved for write off by Cabinet.

The provision set for the financial year 2011/12 was £3.020m (2010/11 £2.892m).

### **3 CHANGES WITH EFFECT FROM 2013/14**

- 3.1 Currently the Council acts as an agent for the Government, and collects Business Rates on behalf of the Government. This is then distributed to councils via the Formula Grant.
- 3.2 From 2013/14 the collection of Business Rates will change so that instead of collecting the income on behalf of the Government, the Council will retain 50% and pass the remaining 50% over to the Government. The proportion passed to the Government will then be re-distributed in a way to yet be determined. From this it can be implied that any increase in the Business Rates doubtful debt provision would now impact both the Council and the Government by 50% each, whereas previously the full impact was upon the Government. However, the full detail of how the process will operate has yet to be outlined.
- 3.3 If the impact of any increase in the doubtful debt provision is to be shared 50% by the Council, the current methodology may need to be reviewed to ensure the Council is not adversely affected in any way in the future. Officers will be investigating this further in the coming months.
- 3.4 Audit & Governance Committee will be apprised as more detail of how the scheme will operate becomes available.

### **4 SUMMARY**

- 4.1 Audit & Governance Committee is asked to note the report.

## APPENDIX A

	Demand	Reminder	Final	Liability Order	14 Day Notice	Bailiff	Returned from Bailiff	Committal Pending	Stat Demand	Debt Collection Agency	Returned from Debt Collector	Write off
<b>1999</b>	100	100	100	100	100	100	100	100	100	100	100	100
<b>2000</b>	100	100	100	100	100	100	100	100	100	100	100	100
<b>2001</b>	100	100	100	100	100	100	100	100	100	100	100	100
<b>2002</b>	100	100	100	100	100	100	100	100	100	100	100	100
<b>2003</b>	100	100	100	100	100	100	100	100	100	100	100	100
<b>2004</b>	100	100	100	100	100	100	100	100	100	100	100	100
<b>2005</b>	1	3	100	100	100	100	100	100	100	100	100	100
<b>2006</b>	1	3	90	90	100	100	100	100	100	100	100	100
<b>2007</b>	1	3	75	75	75	90	100	100	100	100	100	100
<b>2008</b>	1	3	40	60	60	75	100	100	100	100	100	100
<b>2009</b>	5.0	25	20	40	40	60	100	90	90	100	100	100
<b>2010</b>	2.5	12	15	20	25	40	100	90	90	100	100	100
<b>2011</b>	2.0	5	8	10	15	25	100	80	80	0	0	100