



Derby City Council

COUNCIL CABINET

7 December 2016

ITEM 19

Report of the Cabinet Member for Strategy and Policy

Historic Debt

SUMMARY

- 1.1 Derby City Council is responsible for collecting council tax, business rates and sundry debts from households and businesses across the city. The amounts involved are very large and in 2016/17 the Council is tasked with collecting around £100million in council tax, £94million in business rates and is expected to invoice around £60million in sundry debts. Based upon current levels this equates to around £2.5billion over a 10 year period. The accounts recommended for write off total £5,285,866, cover between six and 15 financial years and represent approximately 0.21% of the estimated amount billed over the last 10 years, based on current levels.
- 1.2 Despite the significant pressures placed upon households and businesses as a result of the Government's austerity measures and welfare reform programme collection has remained consistent. This has been achieved through the operation of a firm but fair recovery regime that will use all recovery methods open to the Council to collect money from those that have the means to pay, but will not and provides support and help to those that genuinely cannot pay.
- 1.3 Inevitably some council tax, business rates and sundry debts cannot be collected. Reasons for this include;
 - The debtors dies
 - The debtor is declared bankrupt or is subject to other insolvency proceedings
 - The debtor absconds
 - A court remits the debt

The Council recognises this and as part of having sound and prudential financial management arrangements in place makes a provision for debts classed as bad or doubtful.
- 1.4 The amount of historic debt is set out at appendix 2 and steps need to be taken to reduce this. Whilst every effort will continue to be taken to collect arrears, the Council needs to balance its desire to maximise collection with having a realistic view of its ability to collect old debt, with the level of resources it has available.

- 1.5 The recommended bulk write off set out in this paper will be the first step of a housekeeping programme that will aim to ensure historic debts are periodically reviewed and written off if appropriate. Going forwards, and in accordance with the Council's Scheme of Delegation and Financial Procedure Rules, only debts over £10,000 will be recommended to Council Cabinet for write off. However, given the value this report recommends writing off, debts of all values are included to ensure full transparency. Should a debt be written off and then subsequently the reason for the write off is not appropriate – for example a debtor that has absconded is traced – the debt will be written back on and pursued.
- 1.6 The report sets an upper limit of debt recommended for write off. The actual value finally written off may be lower as accounts may be removed from the process, for example because of recent payment activity.
- 1.7 The Council has a statutory duty to bill and collect Council tax and also to ensure that arrangements are in place for the proper administration of their financial affairs. The recommendations contained within this report are in line with the Council's obligations.
- 1.8 The Council regularly reviews the collectability of debt and has established an appropriate bad debt provision. However the value of both the provision and arrears continue to increase where debts are provided for but not written off. The Council's external auditors, Ernst & Young have recognised that the Council has significant arrears and provision and have commented on the need to reduce these where possible, in their audit plan. Writing off the identified debts will reduce both the balances of outstanding debt and the associated bad debt provision and in doing so present a more realistic position of collectable debt within the Council's accounts.

RECOMMENDATION

- 2.1 To approve writing off council tax debt of £3,534,291.84, business rates debt of £158,988.10 and sundry debt of £1,592,585.65 as set out in appendix 2 of this report, subject to the checks and safeguards set out in 4.1.6, 4.2.5 and 4.3.5 of this report.
- 2.2 To delegate the approval of any minor changes to the amounts set out recommendation 2.1 to the Director of Finance in line with the principles set out in this report.
- 2.3 To agree the principle that council tax, business rates and sundry debt accounts should be maintained and actively pursued for the current financial year and the previous four financial years. Debts older than this will be periodically written off, subject to the safeguards set out in this report.

REASONS FOR RECOMMENDATION

- 3.1 To hold appropriate levels of debt in the Council's balance sheet.
- 3.2 To ensure recovery action is prioritised against more current debt that has a greater chance of being collected.

SUPPORTING INFORMATION

4.1 Council Tax

- 4.1.2 Council tax is charged on domestic properties across the City and the current annual debit is around £100 million.
- 4.1.3 The Government's austerity measures have had a significant impact on many households across the City. The Welfare Reform programme alone has seen the amount of support provided through Housing Benefit and Council Tax Support reduced by millions of pounds. Despite this, it is very encouraging that collection rates have remained consistent. By the end of the 2015/16 financial year the Council had collected 93.8% of the current year council tax due an increase of 0.23% on the previous year's collection rate.
- 4.1.4 The Council Tax team operate a robust recovery regime but also tries to ensure that it identifies those that have the means to pay, but will not, from those that genuinely cannot pay. For those who will not pay then all the recovery methods open to the council will be explored, including, but not limited to, attachment of earnings and referral to enforcement agents.
- 4.1.5 Not all council tax billed can be collected. There are a number of different reasons for this, including, but not limited to;
- Death of the Council Tax payer – for example if the debtor dies leaving no assets or, in rare cases, where a debtor dies intestate or the executors cannot be traced,
 - Absconders who cannot be traced – depending upon the value of the debt both internal and external checks will be completed, but in some cases whereabouts cannot be established,
 - Bankruptcies or other insolvency action – for example where a bankruptcy order is made council tax debt up to and including the date of the order will be written off. Should a dividend subsequently be made the value of the dividend will be written back onto the account,
 - Imprisonment – if a council tax payer is imprisoned for non-payment of council tax the debt is no longer enforceable and therefore will be written off.
- 4.1.6 Checks will be undertaken before any write offs are performed and no debt, irrespective of which financial year it relates to, will be written off if there has been a payment or any other activity, resulting in a revised bill being issued, within the last 28 days.

4.2 Business Rates

- 4.2.2 Business Rates is charged on commercial properties across the City and the current annual debit is around £94 million.
- 4.2.3 As with council tax, despite a challenging economic environment, collection rates have remained consistent. By the end of the 2015/16 financial year the Council had collected 96.88% of the current year business rates due an increase of 0.11% on the previous year's collection rate.
- 4.2.4 The reasons for write off are broadly the same as for council tax and described in paragraph 4.1.5 above.
- 4.2.5 Prior to write off the same checks will be undertaken as set out in paragraph 4.1.6.

4.3 Sundry Debts

- 4.3.2 Businesses and individuals are liable to pay a sundry debt where they receive goods or services from the Council, which are chargeable. The amount charged varies and can be from a few pounds to millions.
- 4.3.3 Collection rates compare favourably when compared to similar local authorities across the country and like council tax and business rates are holding up despite challenging conditions. In 2015/16 our current year collection rate was 92.02% compared to 91.74% for the previous financial year.
- 4.3.4 Although the reasons for write off are broadly as described above for council tax and business rates the collection process is different and more limited.
- 4.3.5 Checks will be undertaken before any write offs are performed and no debt, irrespective of which financial year it relates to, will be written off if there has been a payment within the last 28 days
- 4.4 The Council's external auditors, Ernst & Young have recognised that the Council has significant arrears and have commented on the need to reduce this, if possible, in their audit plan.
- 4.5 Should a debt be written off and then the reason for the write off is no longer appropriate – for example a debtor that has absconded is traced – the debt will be written back on and pursued.

- 4.6 The Council has a finite resource with which to pursue the collection of debt and therefore must have a realistic approach to the collection of historic debt. Further, it is recognised that the Council's ability to collect debt reduces sharply as debts get older. It is proposed that the Council will maintain and vigorously pursue council tax, business rates and sundry debt from the current financial year and the previous four financial years. Debts older than this will be routinely recommended for write off action, although the Council reserves the right to maintain and pursue older debts as they see fit.

OTHER OPTIONS CONSIDERED

- 5.1 Do nothing. This has been rejected because it would result in arrears continuing to rise bringing with it reputational risks through criticism from the Council's auditors and having to further increase the bad debt provision.

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Estates/Property officer Service Director(s) Other(s)	Paul McMahon Principal Lawyer Toni Nash, Head of Finance David Cox, Head of HR Martyn Marples, Director of Finance Dean Horton, Local Taxation Manager Liam Salmon, Information Software Support Manager
For more information contact: Background papers: List of appendices:	John Massey, Head of Revenues, Benefits and Exchequer Services 01332 643772 john.massey@derby.gcsx.gov.uk None Appendix One – Implications Appendix Two – Historic debt position

IMPLICATIONS

Financial and Value for Money

- 1.1 The bad debt provisions are sufficient to meet the cost of the recommended write offs set out in this report. Therefore there will be no financial impact of writing these debts off using the established provision.

Any debt written off can subsequently be written back on should circumstances dictate.

Legal

- 2.1 The Council's financial regulations provide for the writing off of bad debts. Some debts are not recoverable after a period of time where there has been no payment (or admission of liability) and where the creditor (DCC) has not obtained a judgment/court order.

Personnel

- 3.1 Cleansing debts prior to write off and physically writing off debts will result in additional work having to be carried out by the respective teams (Council Tax, Business Rates and Accounts Receivable).

Writing off sundry debts will also create additional work for the Tax Advice and Compliance Manager in respect of additional work checking and cleansing the Council's VAT return.

IT

- 4.1 Functionality exists within our current software to automate the writing off of the council tax debts included in this report. Given the number and value of council tax accounts substantial testing will be performed before the automatic routines are carried out in a live environment to ensure the routines work correctly and that there is no impact on service delivery.

Equalities Impact

- 5.1 None.

Health and Safety

- 6.1 None

Environmental Sustainability

- 7.1 None

Property and Asset Management

8.1 None

Risk Management and Safeguarding

9.1 None

Corporate objectives and priorities for change

10.1 None

Appendix 2

Current historic debt values

		Council Tax as at 31 October 2016	
Financial Year	Balance	Action	Figures
1993/94	£ -	WRITE OFF 1997/98 to 2011/12	£ 3,534,291.84
1994/95	£ -		
1995/96	£ -		
1996/97	£ -		
1997/98	£ 510.43		
1998/99	£ 4,886.90		
1999/00	£ 25,399.95		
2000/01	£ 50,162.79		
2001/02	£ 55,562.81		
2002/03	£ 67,656.54		
2003/04	£ 90,334.44		
2004/05	£ 123,008.41		
2005/06	£ 159,679.88		
2006/07	£ 214,541.36		
2007/08	£ 310,828.93		
2008/09	£ 418,230.18		
2009/10	£ 487,038.39		
2010/11	£ 656,209.15		
2011/12	£ 870,241.68		
2012/13	£ 1,085,500.74	CONTINUE TO RECOVER 2012/13 to 2015/16	£ 11,228,827.41
2013/14	£ 2,202,811.68		
2014/15	£ 3,280,216.36		
2015/16	£ 4,660,298.63		
2016/17	£ 31,468,572.11	CURRENT YEAR	£ 31,468,572.11
Total	£ 46,231,691.36		

		Business Rates as at 9th November 2016	
Financial Year	Balance	Action	Figures
1993/94	£ -	WRITE OFF 2006/07 to 2011/12	£ 158,988.10
1994/95	£ -		
1995/96	£ -		
1996/97	£ -		
1997/98	£ -		
1998/99	£ -		
1999/00	£ -		
2000/01	£ -		
2001/02	£ -		
2002/03	£ -		
2003/04	£ -		
2004/05	£ -		
2005/06	£ -		
2006/07	£ 1,222.48		
2007/08	£ 13,305.98		
2008/09	£ 27,063.87		
2009/10	£ 12,790.71		
2010/11	£ 29,038.60		
2011/12	£ 75,566.46		
2012/13	£ 533,048.30	CONTINUE TO RECOVER 2012/13 to 2015/16	£ 3,797,919.49
2013/14	£ 641,105.09		
2014/15	£ 930,099.69		
2015/16	£ 1,693,666.41		
2016/17	£ 27,803,778.10	CURRENT YEAR	£ 4,294,916.73
Total	£ 31,760,685.69		

		Sundry Debts as at 16 November 2016	
Financial Year	Balance	Action	Figures
1993/94 - 2006/07	£ 144,265.73	WRITE OFF 1993/94 to 2011/12	£1,592,585.65
2007/08	£ 239,141.48		
2008/09	£ 221,048.17		
2009/10	£ 456,890.08		
2010/11	£ 279,139.00		
2011/12	£ 252,101.19		
2012/13	£ 330,024.98	CONTINUE TO RECOVER 2012/13 to 2015/16	£3,683,209.22
2013/14	£ 695,599.01		
2014/15	£ 1,192,727.97		
2015/16	£ 1,464,857.26		

2016/17	£ 4,621,612.00	CURRENT YEAR - out of 30 day terms	£4,621,612.00
Total	£ 9,897,406.87		