

Cabinet

Date: 11 June 2019

Write Offs 2018-19

Report of Annabel Scholes, Interim Executive Director of Finance & Section 151 Officer

Cabinet Member: Councillor Nicholas Oliver, Portfolio Holder for Corporate Services

Purpose of report

To report on debt written off during the 2018-19 financial year.

Recommendations

It is recommended that Cabinet notes the contents of the report.

Link to Corporate Plan

Effective income management processes are critical to the delivery of overall Council service objectives. A more efficient income management process contributes to the availability of resources for wider or deeper service provision.

Key issues

An integral part of debt recovery is the effective management of irrecoverable debts to ensure that resources are applied effectively to the collection of monies outstanding which can reasonably be expected to be collected.

Background

1. The Council's Finance and Contract Rules require an annual report showing:
 1. the total amount of sundry debt written off in any year broken down by the Groups and Services;
 2. details where any one sundry debtor has an annual aggregated total of write offs which exceed £10,000;
 3. details of council tax and business rates write offs;
 4. details of benefit overpayment write offs;
 5. details of housing rents, garage rents and other social housing write offs; and
 6. details of Adult Social Care cases where the charge is deemed irrecoverable prior to an invoice being raised.
2. The Council's Corporate Debt Recovery Policy details the policies on the billing, collection and recovery of monies due to the Council and includes:

7. The Write-Off Policy;
 8. The Sundry Debt Policy;
 9. The Council Tax and NNDR Recovery Policy;
 10. The Housing Benefit and Council Tax Benefit/Support Overpayments Policy;
 11. The Housing Income Management Policy; and
 12. The Statutory and Chargeable Debt Policy.
3. It is not possible to list every scenario which could make a debt suitable for write off. However, the following factors could be appropriate depending on the circumstances. The advice of the Corporate Debt Team should be sought in determining whether a debt is suitable for write off. Some of the justified reasons are included below:
13. The customer is insolvent;
 14. The customer cannot be traced;
 15. The debt is uneconomical to pursue, or to pursue further. This may be based on more than one factor, such as the amount of the debt, the financial position of the customer and the cost in administrative and Officer time in pursuing the debt;
 16. Administrative errors or loss of documentation. When a debt is referred to the Corporate Debt Team, under the Civil Procedure Rules, the Council is required to set out in detail the basis of the claim and enclose documentary evidence to back up the claim. If there is a lack of evidence it may not be possible to pursue the matter;
 17. The debt is a contractual debt over 6 years old. Under the Limitation Act 1980 it is not possible to issue court proceedings in a contractual matter which is over 6 years old. However there are exemptions to this rule and the Services should consult Legal Services where they believe the debt is no longer enforceable by virtue of the Limitation Act 1980;
 18. The Magistrates' Court has refused a committal application or remitted the debt;
 19. The Council has evidence to confirm that the customer is suffering a severe physical or mental illness, which renders recovery action inappropriate; and
 20. The customer has died and there are no or insufficient funds in the estate to settle the debt.
4. Where dividends are received after the debt has been written off the amount of the dividend is written back on to the account or invoice.
5. The total debt written off in 2015-16, 2016-17, 2017-18 and 2018-19 is shown below:

	2015-16	2016-17	2017-18	2018-19
Sundry debt	£66,451.44	£86,859.14	£104,856.31	£86,507.19
Council Tax	£511,941.04	£847,797.21	£869,775.83	£474,500.89
Business Rates	£626,310.01	£656,647.24	£611,495.46	£790,990.74
Benefit Overpayments	£238,607.81	£163,040.67	£174,067.31	£165,914.69
Housing Rent & Other Debt (see note 1)	£0.00	£0.00	£208,310.92	£394,903.58
Adult Social Care	£967.65	£11,462.85	£43,977.11	£37,671.68
Total	£1,444,277.95	£1,765,807.11	£2,012,482.94	£1,950,576.88

Notes:

1. The Finance & Contract Rules covering write offs were updated at County Council on 1 November 2017 to include Housing debts.

Sundry Debt

6. When invoices are created, the service area responsible is immediately credited with the income. If the recovery of the debt is then considered doubtful the service will be charged and they will need to accommodate this additional cost from within their existing resources. At the same time a bad debt provision is created. Write offs are then charged against the bad debt provision.
7. During 2018-19 94 invoices valued at £86,497.96 and regarding 65 debtors were written off. In addition, 26 nominal balances totalling £9.23 were written off in 2018-19.
8. The level of bad debt provision was sufficient to cover all of the write offs in year. However, a review of the outstanding debt resulted in a need to increase the bad debt provision by £125,762.67 in 2018-19. The increase was charged to the relevant service areas in 2018-19. Further details are provided in the Provision for Bad Debt section below.
9. The breakdown of the debt written-off in 2018-19 by Group/Service is shown below:

Group/Service	No. of Invoices	Value
Adult Services (including Valley Care)	57	£76,187.65
Children's Services (including Schools)	9	£1,335.15
Finance	12	£6,097.23
Housing & Public Protection	6	£810.70
Local Services (including Projects)	9	£1,736.23
Planning & Economy	1	£331.00
Total	94	£86,497.96

10. In 2018-19 two debtors had an annual aggregated total of write offs which exceeded £10,000.

Group/Service	Description	Reason	Amount
Adult Services	Care charges	Deceased. Collection exhausted. Statute barred.	£52,296.91
Adult Services	Care charges	Deceased. Collection exhausted. Statute barred.	£10,530.44
	Total		£62,827.35

11. Since the year end a further £144,509.49 has been authorised for write off.
12. A comparison with previous years is shown below:

	2015-16	2016-17	2017-18
Amount written off	£66,435.00	£86,843.69	£104,837.79
Number of invoices	208	184	267
Number of debtors	159	103	204
Amount of nominal balances written off	£16.44	£15.45	£18.52
Number of nominal balances	54	51	52

Number of debtors with write offs over £10,000	0	1	3
Amount	£0.00	£11,000.00	£40,019.50

13. The level of Sundry debt on the Council's Balance Sheet at 31 March 2019 is £11,737,533.20. The provision for bad debt in relation to this amounts to £590,219.37.

Council Tax

14. During 2018-19 4,304 Council Tax write-offs were performed totalling £406,752.77. The highest of these was for £7,281.90 where the liable company was dissolved. 523 of the write offs were for debts of £1.00 or less.
15. In addition, 558 court costs write-offs were performed in 2018-19 totalling £67,748.12.
16. The level of bad debt provision was sufficient to cover all of the write offs in year. However, a review of the outstanding debt resulted in a need to increase the bad debt provision by £487,645.93 in 2018-19. The increase was charged to the Collection Fund in 2018-19. This was slightly lower than anticipated (£487,646 instead of £630,000) when the 2018-19 budget was agreed. The Council has provided for 93% of the total bad debt within its accounts; and the remaining 7% is funded by the Police and Crime Commissioner for Northumbria. Further details are provided in the Provision for Debt section below.
17. Of the £474,500.89 written off in 2018-19, £26,561.51 was in respect of pre Local Government Reorganisation balances.
18. A comparison with previous years is shown below:

	2015-16	2016-17	2017-18
Amount of council tax written off	£422,968.71	£761,066.52	£732,925.76
Number of debts	1,789	2,328	2,425
Number of debts £1.00 or less	920	802	609
Amount of court costs	£88,972.33	£86,730.69	£136,850.07
Number of debts	638	657	1,065
Amount in respect of pre LGR balances	£104,122.72	£125,663.63	£116,799.39
Number of write offs over £10,000	0	3	0
Amount	£0.00	£54,722.89	£0.00

19. The Council's proportionate share of Council Tax debt held on the balance sheet as at 31 March 2019 is £7,351,925.64. The provision for bad debt in relation to this amounts to £4,060,040.13.

Non-Domestic Rates (Business Rates)

20. During 2018-19 155 Non-Domestic Rates write offs were performed totalling £784,809.16. 25 of the write offs were for debts of £1.00 or less.
21. In addition, 67 court costs write-offs were performed in 2018-19 totalling £6,181.58.

22. The level of bad debt provision was sufficient to cover all of the write offs in year. However, a review of the outstanding debt resulted in a need to increase the bad debt provision by £1,260,927.45 in 2018-19. The increase was charged to the Collection Fund in 2018-19. This was higher than anticipated (£1,260,927 instead of £480,000) when the 2018-19 budget was agreed. The Council has provided for 50% of the total bad debt within its accounts; and the remaining 50% is funded by Central Government. Further details are provided in the Provision for Debt section below.

23. Of the £790,990.74 written off in 2018-19, £2,289.01 was in respect of pre Local Government Reorganisation balances.

24. The write-offs included 26 cases in excess of £10,000 as follows:

Location of Business	Reason	Amount
Alnwick	Company Voluntary Arrangement	£38,910.91
Alnwick	In Liquidation	£11,055.61
Ashington	Company dissolved	£25,435.58
Ashington	Absconded	£16,447.66
Ashington	In Liquidation	£15,291.38
Ashington	Company dissolved	£11,782.88
Ashington	Bankrupt	£10,965.19
Berwick	Liability dispute / statute barred	£20,379.44
Blyth	Company wound up	£32,257.62
Blyth	Bankrupt	£29,030.74
Blyth	Company Voluntary Arrangement	£22,439.60
Blyth	Company dissolved	£17,050.65
Blyth	Bankrupt	£16,766.68
Corbridge	Company dissolved	£14,385.60
Cramlington	In Liquidation	£40,629.36
Cramlington	Company Voluntary Liquidation	£36,069.79
Cramlington	In Liquidation	£25,720.50
Cramlington	In Administration	£15,507.29
Cramlington	Liability dispute. Unable to pursue further	£15,525.69
Cramlington	In Liquidation	£14,348.54
Cramlington	Company Voluntary Liquidation	£11,489.42
Cramlington	Company Voluntary Liquidation	£11,131.18
Hexham	Bankrupt	£32,193.58
Hexham	Bankrupt	£19,393.51
Hexham	Company dissolved	£10,887.64
Prudhoe	Individual Voluntary Arrangement	£19,416.04
		£534,512.08

25. A comparison with previous years is shown below:

	2015-16	2016-17	2017-18
Amount of business rates written off	£610,378.74	£646,337.74	£601,876.72

Number of debts	230	165	181
Number of debts £1.00 or less	30	30	47
Amount of court costs	£15,931.27	£10,309.50	£9,618.74
Number of debts	120	86	82
Amount in respect of pre LGR balances	£23,912.51	£17,763.043	£28,810.99
Number of write offs over £10,000	18	17	22
Amount	£281,595.97	£407,548.98	£373,971.95

26. The Council's proportionate share of Business Rates debt held on the balance sheet as at 31 March 2019 is £1,338,789.41. The provision for bad debt in relation to this amounts to £778,072.97.

Benefit Overpayments

27. Overpayments of Housing Benefit and Council Tax Benefit/Support are established through a change in benefit entitlement. They are described as an amount of benefit that has been awarded but to which there is no entitlement under the regulations.
28. The Council receives 40% subsidy from the Department for Work & Pensions (DWP) on any overpaid Housing Benefit where the claimant has caused or contributed to the cause of that overpayment. Where an overpayment of Housing Benefit is caused by an administration error or delay the Council receives 100% subsidy from DWP as long as the annual sum of overpaid Housing Benefit caused by this error type is below a tolerance level set by DWP. This tolerance level is based on the Council's total annual Housing Benefit expenditure and the Council has been within tolerance in each year since inception. In addition to subsidy payments the Council keeps any monies recovered in respect of Housing Benefit overpayments, therefore there is no adverse impact on the financial performance of the Council.
29. Recoverable overpayments of Council Tax Benefit are administered and collected through the council tax account. The subsidy scheme for Council Tax Benefit ended in 2012-13 in line with the localisation of Council Tax Support schemes and no prior year adjustments are required. This means that the Council has already received 100% subsidy for any overpayments of Council Tax Benefit identified after this date. The Council also keeps any monies recovered in respect of such overpayments.
30. All overpayments of Council Tax Support are administered and collected through the council tax account.
31. During 2018-19, £163,855.28 was written off relating to 286 Housing Benefit overpayments ranging from £0.01 to £17,320.00 with a total value of £162,425.28, and 11 irrecoverable Council Tax Benefit overpayments ranging from £0.01 to £652.79 with a total value of £1430.00. The total number of claims involved was only 292 as some related to both Council Tax and Housing Benefit claims.
32. Four Housing Benefit write offs totalling £1,596.00 were in respect of overpayments identified pre Local Government Reorganisation.
33. The write-offs included one case in excess of £10,000 as follows:

Type	Reason	Amount
Housing Benefit	Irrecoverable per HM Courts & Tribunal Service	£17,320.00

34. A comparison with previous years is shown below:

	2015-16	2016-17	2017-18
Overpaid housing benefit written off	£203,039.00	£139,131.33	£163,990.64
Number of overpayments	353	391	339
Overpaid council tax benefit written off	£17,977.00	£3,842.25	£2,875.63
Number of overpayments	39	13	16
Number of claims	368	398	344
Number of write offs over £10,000	2	0	1
Amount	£24,688.03	£0.00	£12,745.51

35. During 2018-19, £2,059.41 was written off relating to 4 Council Tax Support overpayments ranging from £166.83 to £946.61.

36. A comparison with previous years is shown below:

	2015-16	2016-17	2017-18
Overpaid council tax support written off	£18,539.35	£20,067.09	£7,201.04
Number of overpayments	38	33	12

37. The level of Benefit Overpayments debt on the Council's Balance Sheet at 31 March 2019 is £3,223,046.66. The provision for bad debt in relation to this amounts to £271,027.00.

Housing Rent and other debt

38. During 2018-19 605 Housing write offs were performed totalling £394,903.58. 2 of the write offs were for debts of £1.00 or less.

39. The level of bad debt provision was sufficient to cover all of the write offs in year. However, a review of the outstanding debt resulted in a need to increase the bad debt provision by £330,574.15 in 2018-19. The increase was charged to the Housing Revenue Account in 2018-19. This was lower than anticipated (£330,574 instead of £842,970) when the 2018-19 budget was agreed. Further details are provided in the Provision for Debt section below.

40. The breakdown of the debt written-off in 2018-19 by category is shown below:

Category	No. of accounts	Value
Rent only	339	£210,031.79
Rechargeable Repairs	176	£138,040.94
Furniture Recharges	33	£32,256.66
Court Costs	57	£14,574.19
Total	605	£394,903.58

41. The write-offs included one case in excess of £10,000 as follows:

Type	Reason	Amount
Rent	Collection exhausted. Statute barred.	£11,017.23

42. A comparison with previous years is shown below:

	2015-16	2016-17	2017-18
Amount written off	£0.00	£0.00	£208,310.92
Number of debts	0	0	430

Number of write offs over £10,000	0	0	0
Amount	£0.00	£0.00	£0.00

43. The Finance & Contract Rules covering write offs were updated at County Council on 1 November 2017 to allow the write off of Housing debts. No Housing debts were written off in 2015-16 and 2016-17.

44. The level of Housing Rent debt on the Council's Balance Sheet at 31 March 2019 is £3,433,036.49. The provision for bad debt in relation to this amounts to £2,588,529.09.

Adult Social Care

45. Occasionally care charges are deemed irrecoverable prior to an invoice being raised. The Council had a legal right to charge, but it was apparent that the charge was not recoverable prior to an invoice being raised.

46. During 2018-19, £37,671.68 was written off relating to 15 Adult Social Care debts.

47. None of this debt has been provided for as doubtful so the financial impact on the Council is a loss of £37,671.68.

48. There were no write offs in excess of £10,000 in 2018-19.

49. A comparison with previous years is shown below:

	2015-16	2016-17	2017-18
Amount written off	£967.65	£11,462.85	£43,977.11
Number of debts	7	10	77
Number of write offs over £10,000	0	0	0
Amount	£0.00	£0.00	£0.00

50. The level of Adult Social Care debt on the Council's Balance Sheet at 31 March 2019 is £2,593,804.19. There is no provision for any of this debt as being doubtful.

Bad Debt Provision

51. A summary of the Council's provision for bad debt as at 31 March 2019 is shown below:

Provision for Debt	Opening Balance	Movement	Closing Balance
	£	£	£
Sundry Debt	-464,456.70	-125,762.67	-590,219.37
Council Tax (see note 1)	-4,089,658.71	29,618.5	-4,060,040.13
Business Rates (see note 2)	-522,757.70	-255,315.27	-778,072.97
Benefit Overpayments	-303,023.00	31,996.00	-271,027.00
Housing Rent and other debt	-2,651,724.19	63,195.10	-2,588,529.09
Total	-8,031,620.30	-256,268.26	-8,287,888.56

Notes:

1. Council's share. Overall provision shared with Police and Crime Commissioner for Northumbria.

2. Council's share. Overall provision shared with Central Government

Implications

Policy	Write-offs are undertaken in accordance with the Corporate Debt Recovery Policy which incorporates the Council's Write-Off Policy. The Finance and Contract Rules dictate the levels of delegation.
Finance and value for money	The write-off of debt represents a cost to the Council and is only undertaken when it becomes clear that there is no prospect of recovery.
Legal	None
Procurement	None
Human Resources	None
Property	None
Equalities (Impact Assessment attached)	All debt recovery policies and the procedures they use have been subject to an equality impact assessment.
Yes <input type="checkbox"/> No x N/A <input type="checkbox"/>	
Risk Assessment	Risks relating to the non-recovery of debt are picked up within the relevant area's service plan. In addition, the risk assessments carried out in relation to the budget process highlight such areas and identify the appropriate controls. Budget risk assessments are carried out on an annual basis.
Crime & Disorder	None
Customer Considerations	Efficient and effective recovery of recoverable debts, as well as effective management of irrecoverable debts, in accordance with the Corporate Debt Recovery Policy which incorporates the Council's Write-Off Policy.
Carbon reduction	None
Wards	All

Background Papers:

Corporate Debt Recovery Policy
Finance and Contract Rules updated 1 November 2017

Report sign off

Authors must ensure that officers and members have agreed the content of the report:

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Monitoring Officer/Legal	Liam Henry
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