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13 March 2013

**Name of Cabinet Member:**

Cabinet Member (Strategic Finance and Resources) – Councillor Duggins

**Director Approving Submission of the report:**

Director of Finance and Legal Services

**Ward(s) affected:**

All

**Title:**

The exercise of delegated authority in the write-off of debt owing to the Authority in 2012/13

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**Is this a key decision?**

No

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**Executive Summary:**

The revenues and benefits service is responsible for the collection of council tax, business rates, housing benefit overpayments and corporate income, which are invoices raised for a range of goods and services provided by the Council. More than £150 million in benefits is administered each year and more than £300 million of revenue is collected.

Every effort is made to maximise the collection of all income and debt owing to the Council, however in certain circumstances it is appropriate and necessary to write off debts as irrecoverable.

Officers within the revenues and benefits service hold delegated responsibility to write off debts owing to the Council. Where the net level of debt written off within a single financial year exceeds £3.5 million, a report must be submitted to the Cabinet Member (Strategic Finance and Resources).

The level of debt written off during 2012/13 is expected to total £5.37 million. A significant proportion of this figure is the £3.04 million of business rates debt forecast to be written off by the end of March 2013. The need to write off significant amounts of business rates debt has arisen as a result of government-led technical changes to business rates and local authority funding which mean the Council would bear the cost of any debts written off after 1 April 2013.

In addition there has been a significant increase in the volume of housing benefit overpayment debt written off, with the final position expected to be in the region of £1 million. This is the result of a specific exercise to review and reduce the volume of old outstanding housing benefit overpayment debt for which recovery options have been exhausted.

**Recommendations:**

The Cabinet Member is requested to:

- 1) Review the level of write-offs authorised under delegated authority.
- 2) Note that the level of debt written off during 2012/13 will exceed £3.5 million.
- 3) Agree to receive a further report at the first meeting of the new municipal year 2013/14 to provide an update for the period April 2012 to March 2013.

**List of Appendices included:**

None

**Other useful background papers:**

None

**Has it or will it be considered by Scrutiny?**

No?

**Has it, or will it be considered by any other Council Committee, Advisory Panel or other body?**

No

**Will this report go to Council?**

No

**Report title:**

The exercise of delegated authority in the write-off of debt owing to the Authority in 2012/13

**1. Context (or background)**

Since 2000, officers within the revenues and benefits service have held delegated authority for writing off debts owing to the Council. The thresholds to which designated Officers or Members may authorise the write off of individual debts owing to the Council were documented and agreed in a report to the Cabinet Member (Finance and Value for Money) on 21 January 2009 and these levels are detailed below:

- 0 - £5,000 - Service Manager
- £5,000 to £14,999 – Assistant Director
- £15,000 - £100,000 Director of Finance and Legal Services
- Over £100,000 – Cabinet Member

At the Cabinet Member (Finance and Value for Money) meeting of 21 January 2009 it was agreed that if, at any time, the revenues and benefits service expects net write-off levels to exceed £3.5 million in a single financial year, a report must be submitted to the Cabinet Member (Strategic Finance and Resources). The revenues and benefits service expects write off levels to exceed the £3.5 million threshold in 2012/13 and therefore this report fulfils the stated requirement.

The £3.5 million threshold has not been reviewed since 2009 and a recommendation will be made to the Cabinet Member in the new municipal year to review the threshold.

**2. Options considered and recommended proposal**

- 2.1 All service areas have robust procedures and policies in place to ensure that every effort is made to recover debt owing to the Council and that debt is written off only in prescribed circumstances.
- 2.2 The Council utilises a range of techniques to maximise the collection of debt including tracing agencies, credit reference agencies, collection agents and legal processes.
- 2.3 An account may be re-raised after write-off should further information become available, for example where the whereabouts of an absconder is subsequently discovered.
- 2.4 Each year the revenues and benefit service administer more than £150 million in housing and council tax benefit and collect £117 million of business rates, £100 million of council tax and more than £90 million in corporate income
- 2.5 The revenues and benefit service have identified more than £6 million of housing benefit overpayment debt during 2012/13.
- 2.6 The table below shows total write offs in 2010/11, 2011/12 and the forecast outturn position for 2012/13.

	2010/11	2011/12	2012/13
Service Area	Net write off	Net write off	Net write off
Council Tax	£1.974m	£0.686m	£0.800m
Business Rates	£0.021m	£1.98m	£3.04m
Corporate Income	£0.884m	£0.269m	£0.300m
Benefit overpayments	£0.241m	£0.427m	£1.050m
Business Improvement District			£0.180m
<b>Total</b>	<b>£3.12m</b>	<b>£3.36m</b>	<b>£5.37m</b>

- 2.7 There has been a significant increase in the volume of housing benefit overpayment debts written off during 2012/13. This is the result of a one-off proactive exercise to review outstanding benefit overpayments and write off old debts for which recovery options have been exhausted. Of the £1.050 million housing benefit overpayments forecast to be written off, more than 75 per cent (£788,000) are old debts.
- 2.8 In addition to the volume of housing benefit overpayment debt written off, the volume of business rates debt written off is significantly high. It is expected that business rates write off levels will reach £3.04 million by the end of March 2013, exceeding the £1.98 million written off during 2011/12.
- 2.9 The total level of debt written off is therefore expected to total £5.37 million for 2012/13 and exceed the £3.5 million threshold.
- 2.10 Under the existing regime, the government specifies expected levels of business rates non-collection. For Coventry this Government figure has averaged approximately 1.3% over the last three years. Whilst the Council makes every effort to collect monies owing there is an expectation that some debts will be unrecoverable and an allowance is made for this by Government. Coventry's business rates write-offs in 2010/11 were disproportionately low due to resource issues that restricted the volume of write-offs that could be processed in the year. In effect, the business rate write-offs proposed now will represent the catching-up of some of this historical debt write-off. Taking a three year-perspective, the total level of business rates written-off between 2010/11 and 2012/13 will represent approximately 1.5% of overall business rates compared with the Government's indicative figure of 1.3% above.
- 2.11 It is clear that the Council has not always treated such debt write-off as a time critical practice. Indeed, by delaying write-offs this gives the maximum opportunity to collect old debt, although the cost effectiveness of doing so reduces as the debt increases in age. However, the need to bring the write-off process up to date has arisen due to government-led technical changes to the business rates system and local authority funding.
- 2.12 Within the existing model for Local Government funding, local authorities collect business rates on behalf of Central Government. Any income is paid into a national pool that is then redistributed as part of the annual Local Government Settlement. Under this mechanism any write-offs are borne by Central Government.
- 2.13 From 1<sup>st</sup> April 2013, a new model of funding will come into operation under which the City Council will retain 49 per cent of Business Rates income (the Government will receive 50 per cent and the West Midlands Fire Authority 1 per cent). Adjustments will be made to other sources of funding which, in theory, equalises this change to the allocation of Business

Rates on day 1 of the scheme. However, any net changes to overall Business Rates income within and beyond 2013/14 will impact on each organisation in the proportions stated above. Therefore, the City Council will become liable for any write-offs made after 1<sup>st</sup> April 2013 and will suffer a real loss of resources as a result of these.

- 2.14 The government has recently clarified a decision for 49% of backdated appeals relating to business rates charges incurred prior to 1 April 2013 to be borne by local government under the new framework. Given this additional cost to the Council which has been reflected in 2013/14 Budget Setting it is imperative that the Council maximises the write-off costs described above that should be reflected legitimately in the amount borne by Government where these relate to the previous business rates regime.

#### **Results of consultation undertaken**

No consultation has been undertaken.

#### **4. Timetable for implementing this decision**

Not applicable.

#### **5. Comments from Director of Finance and Legal Services**

- 5.1 The Council makes appropriate budgetary provision for the estimated level of debt to be written off. When a decision is taken to write off a debt, it is charged to this provision. Each year the level of bad debt provision is reviewed based on the level of debt having been written off and in consultation with external audit guidance. This process ensures that the Council's annual budget contains sufficient provision for the write-off of bad debt.

- 5.2 Writing off of debts is carried out in strict compliance with the policies and procedures of the delegated authority under the City Council's Constitution.

- 5.3 There are no specific legal implications arising from this report

#### **6. Other implications**

None

##### **6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?**

The effective collection of all Council debts and the existence of robust processes for monitoring the write-off of such debt are crucial in maximising the use of Council resources.

##### **6.2 How is risk being managed?**

The service is required to submit an annual report to the Cabinet Member (Strategic Finance and Resources) documenting the exercise of delegated authority. The service must report immediately that the level of debt written off in a single year is likely to exceed £3.5 million.

##### **6.3 What is the impact on the organisation?**

None

#### 6.4 Equalities / EIA

No equality impact assessment has been carried out as the recommendations do not constitute a change in service or policy

#### 6.5 Implications for (or impact on) the environment

None

#### 6.6 Implications for partner organisations?

None

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