

# Crawley Borough Council



## Report to Cabinet 18 March 2015

### Irrecoverable Debts 2014/2015

Report of the Head of Finance, Revenues and Benefits FIN/357

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#### **1. Purpose**

- 1.1 The purpose of this report is to obtain approval to write-off a debt that is considered to be irrecoverable and exceed the delegated limit of £50,000 per write-off. A summary of debts to be written-off under delegated powers is also set out in the report.

#### **2. Recommendations**

- 2.1 Cabinet is recommended to approve the write-off of the Business Rates debt as set out in the report.

#### **3. Reasons for the Recommendations**

- 3.1 The Council's Constitution necessitates amounts exceeding £50,000 requiring write-off to be approved by the Cabinet.

#### **4. Background**

- 4.1 During the financial year 2014/2015, the Council is due to collect an estimated £200 million in business rates, council tax, rents and other charges for services provided. There is a set period of time, according to the type of debt, in which the debt should be paid to the Council. If payment is not received within this period, debt recovery action is started, appropriate to the type of debt. As an example, the recovery of Council Tax can include the following stages:
- 4.2 At all stages of debt collection the Council seeks to enter into a dialogue with the debtor and provide advice (for example on housing benefit) and where to obtain external debt advice. Disappointingly, many debtors fail to respond to correspondence. This is true of all types of debt from both individuals and businesses. Personal visits may be undertaken in some cases.
- 4.3 Despite action taken, some debts remain unpaid and prove to be irrecoverable. Reasons for this include bankruptcy, unable to trace despite the use of tracing agents, death of a debtor where there is no estate, or uneconomic to collect for small balances.

- 4.4 Under the current scheme of delegation within the Council's Constitution, the Leader of the Council is delegated with the function of approving the writing-off of irrecoverable debts up to £50,000 and the Head of Finance, Revenues and Benefits is delegated with the function of writing off debts not exceeding £2,500. All other debts require write-off approval by the Cabinet.
- 4.5 In accordance with Financial Regulations, Legal constraints and Audit Commission guidelines, Councils are required to regularly review any outstanding debts and write off irrecoverable balances. The Council has been encouraged to avoid keeping debts 'on the books' without a realistic prospect of recovery.

## 5. Debt requiring approval for write-off

- 5.1 Debtors with arrears in excess of £50,000 requiring write-off, totalling £636,882.21 are shown in the following table, these are in respect of unpaid Business Rates:-

Name and address	Reason	Value £
Legends 91 High Street	Proposal to strike off	51,416.85
Unit C Manor Court	Liquidation	51,066.00
Half Moon Brighton Road	Bankruptcy	65,798.83
24 Queens Square	Absconded	66,802.46
Car Park Faraday Road	Proposal to strike off	279,207.85
Car Park City Place	Dissolved	64,313.33
19/21 Queensway	Absconded	58,276.89
<b>TOTAL</b>		<b>636,882.21</b>

- 5.2 The companies in the table above have ceased trading. In both cases it has not been possible to identify with any certainty the correct names of the occupiers and the dates for which they were responsible. In these cases, it is extremely unlikely that any significant proceeds will be recovered. Any monies received for debts that have been authorised for write-off are written back onto the debtor's accounts. This debt was incurred when tenants were responsible for payment of the rates. The outstanding debts have been fully investigated and legal advice has been sought but due to the circumstances they are considered irrecoverable.
- 5.3 The business rates retention scheme was introduced in April 2013. Under the scheme local authorities receive a share of any growth in business rates, but equally have to share the burden if business rates fall. For 2014/15, the Council is showing that business rates for the year are slightly higher than the baseline set by the government. As such, the Council is due to pay a levy on the rates retained above the baseline. Any reductions in business rates from write-offs would reduce the retained rates, but also reduce the levy payable. The net impact is a cost to the General fund of 20% of all write-offs.

## 6. Other Debts Written-Off Under Delegated Powers

- 6.1 The Council's Constitution allows the Chair of the Cabinet and the Head of Finance, Revenues and Benefits to write-off debts up to the value of £50,000. A similar process of debt recovery is undertaken for all debts, regardless of the value of the debt. The following table provides the Cabinet with a summary of other debts that have been written off during the financial year 2014/2015:-

	Debt up to £2,500	Debt £2,501 to £50,000	Total £
Rent Deposits	41,461.15	0	41,461.15
General Debts	18,349.21	0	18,349.21
Housing Rents	24,824.98	10,572.74	35,397.72
Overpaid Benefit	22,751.46	41,500.79	64,252.25
Council Tax	209,372.06	0	209,372.06
Business Rates	23,699.17	350,568.48	374,267.65
Commercial	0	9,653.75	9,653.75
<b>TOTAL</b>	<b>340,458.03</b>	<b>412,295.76</b>	<b>752,753.79</b>

## 7. Information & Analysis Supporting Recommendation

- 7.1 The action taken on each debt will depend on the nature of the debt and the debtor. As set out in the Council's Corporate Debt policy. However, no debt is written off without good reason and all write-offs are subject to potential audit to ensure adherence to Council processes.
- 7.2 While every effort is made to maximise income, some irrecoverable debts will occur. The amounts to be written off are within the expected range for non recoverable debts and are within the budgeted provision.

## 8. Implications

- 8.1 Sufficient provision has been made within the Council's accounts to cover the cost of the write-offs and therefore will not affect the Council's financial position.

Report author and contact officer: *Steve Blacktop, Income Control officer 01293 438316.*