



Revenues & Financial Transactional Services

# Corporate Write Off Policy

November 2018



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Post Holder:	Dave Gibbs
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## 1 Purpose

To provide a corporate approach to the writing off of bad and irrecoverable debts whilst seeking to maximise the opportunity for collection thereby minimising the need for write off. The policy also establishes a disciplined approach across the Authority for the writing off of irrecoverable debts so that resources can be focused on potentially recoverable debt.

## 2 Introduction

- 2.1 Newham Council is committed to ensuring that all reasonable steps are taken to recover a debt before considering write off. An effective write off policy is essential to good recovery. It ensures that bad debt is identified quickly and allows resources to be concentrated where they are most productive.
- 2.2 This policy explains how Newham Council will administer and control the writing off of irrecoverable debts.

## 3 Background

- 3.1 By way of setting the background the table below provides a brief summary of the Council's three main income and debt areas.

Income Area	Annual Income (18/19)	Gross Arrears at 31/3/18	Provision for Bad/Doubtful Debt at 31/3/18
Council Tax	£97.8m	£29.6m	£23.5m
Business Rate	£154m	£4.69m	£2.3m
<b>Housing Rent</b>			
HRA	£100m	£8.3m	£6.3m
HGF	£ 70m	£6.6m	£5.5m

- 3.2 The higher the level of collection the Authority achieves the lower the level of Bad Debt provision we need to make. The level of bad/doubtful debt provision is reviewed minimally at least twice each year – once when setting the following year's charge, and again at the year-end as part of the final accounts and annual audit process. The level of provision needs to be prudent (to satisfy audit minimum requirements) but also realistic (to avoid unnecessarily tying up resources).

- 3.3 The review must take account of the likely collection rate for current year debt as well the rate at which older arrears are being recovered.
- 3.4 The Council helps to support small businesses, through corporate programmes and Social Enterprises. Therefore, there will be occasions when working capital loans are unable to be satisfied. This policy makes provision through the write-off scheme of delegation for these debts to be written off in the same way as other Council debts are treated.

## **4 Write-offs**

### **Why do we need them?**

- 4.1 Despite the continuous improvement in income and debt collection, there will always be an element of debt that is irrecoverable. The main reasons for write off include:
- Insolvency – the debtor is officially unable to pay their debts in full (business debts)
  - Deceased – the debtor has died and there are insufficient funds to fully discharge the debt.
  - Court Remittal – the courts have remitted (reduced) the debt.
  - Imprisonment – for non payment of Council Tax and Business Rate only. Once the sentence has been served the debt must be written off.
  - Statute Barred – the debt has become irrecoverable through the passage of time.
  - Unpaid working capital loan
  - Uneconomic to collect – the amount owed is too small to warrant the cost of collection. This usually applies where part payments have been made leaving a small residual debt. It is often linked to another write off category.
  - Negotiated Settlement – pre court negotiation to arrive at economic settlement for both parties.
  - “Gone away, no trace” – this is the category where a much more proactive approach should pay dividends and reduce the level of write offs, and it is in this area that the main focus of the write off strategy will lie.
- 4.2 In each of the above cases, once we have reached that stage there is effectively nothing further we can do to recover (all of) the debt, and write off will be required. The emphasis in such cases is quite clearly on the much earlier collection of income thereby preventing the debt passing into these stages.

### **Will we only Closed Accounts be written off?**

- 4.3 In most of the cases relating to income related debts the account concerned will be closed i.e. the debt has stopped accruing. As a general rule there would be no question of writing off “live accounts” (where charges are still being made to the account because the account holder is still resident in the borough and/or actively receiving services).
- 4.4 However, in exceptional circumstances a live account may need to be considered for write off. Such circumstances may include extreme financial vulnerability e.g. illness, where the arrears are never realistically going to be paid, but remain as a burden to the individual. In many cases this situation will have arisen through no fault of the individual concerned e.g. local authority error made in benefit calculation. Clearly it can place great stress on the individual and it is right that the Policy Statement and Strategy Document acknowledge and provide for such eventualities despite the fact that they will be relatively small in number.

### **What outcomes are we trying to achieve?**

4.5 The write off strategy should achieve the following outcomes:

- Minimise the level of write off necessary
- Minimise the level of resources provided for bad and doubtful debts
- Standardise the write off process across all income and debt areas
- Avoid the use of subjective judgement and criteria in considering cases for write off by providing clear objective criteria and process
- Introduce effective performance management arrangements
- Help focus resources on potentially recoverable debts (by disciplined approach to writing off irrecoverable debts – )
- Further enhance the Council's reputation for resource management
- Deliver a clear message that it expects people to pay the amounts properly due by treating write offs as exceptions (not the rule).

### **Who is accountable?**

4.6 The Corporate Management Team is responsible for the approval of the write off policy. At officer level overall accountability lies with the Executive Director of financial Sustainability, primarily through their personal statutory responsibilities (section 151 officer). The Council's Scheme of Delegation contains the extent of individual officer authority that applies uniformly across all services. Revenues & Financial Transactional Services are the custodians of the Councils write-off policy and are responsible for maintaining and implementing the Councils debt collection strategy.

## 5 The Policy Statement and Strategy Document.

- 5.1 The Policy states the Council’s intention to collect all monies due and also its desire to help people to pay their debts and avoid them accumulating.
- 5.2 The document sets out the ways in which the Council will manage the write off process and the actions that it will take to ensure that only those that are truly irrecoverable are actually written off. It also recognises the reality of debt collection in that it provides for the following eventualities and provides a framework within which they should be managed:
- Write off of debts within “live accounts”
  - Negotiating settlement with debtors at Court (such negotiations will be opportunist and debt managers need to be able to respond in a way that balances the potential loss from write off and the cost that would be avoided through settlement)
  - Uneconomic to collect – there will always be a need for considering the economics of individual cases. There is a risk that small amounts will be written off in one debt area whilst we actively pursue larger debts with the same debtor in other areas, but the aim is to minimise these.
- 5.3 Both Internal and External Audit will have access to these records as part of their routine audit activity or in the case of any specific investigation.

## 6 Amendment to Scheme of Delegation.

- 6.1 The Scheme of Delegation was amended at Mayoral Proceedings on 31 October 2018. The revised scheme is set out in the tables below.

Designated Level of Authority	Posts
1	Chief Executive, Executive Directors, Managing Director oneSource
2	Directors and officers reporting to tier 1 posts (excluding officers in support/clerical roles) including oneSource Directors.
3	Officers reporting to tier 2 posts (excluding administrative or clerical posts) or oneSource directors
4	Officers reporting to tier 3 posts(excluding administrative or clerical posts) or Tier 3 oneSource officers

## Citizen Debts

To agree to write off a **citizen debt** owed by a Newham resident or former resident

<u>Debt Value</u>	<u>Delegation</u>	<u>Source</u>
£500,000 +	Mayoral Proceedings	
£100,001 - £500,000*	Level 1	*With the agreement of the s.151 officer s.101 LGA 1972 s.9E LGA 2000
£25,001 - £100,000*	Level 2	*With the agreement of the s.151 officer s.101 LGA 1972 s.9E LGA 2000
£10,001 - £25,000	Level 3	
Up to £10,000	Level 4	

## Business Debts

To agree to write off a **business debt**, i.e. A debt owed by a business, sole trader, or other organisation in the course of business, trading or delivery of services.

<u>Debt Value</u>	<u>Delegation</u>	<u>Source</u>
£500,000 +	Mayoral Proceedings	
£100,001 - £500,000*	Level 1	*With the agreement of the s.151 officer s.101 LGA 1972 s.9E LGA 2000
£25,001 - £100,000*	Level 2	*With the agreement of the s.151 officer s.101 LGA 1972 s.9E LGA 2000
£10,001 - £25,000	Level 3	
Up to £10,000	Level 4	

## Working Capita Loans

<u>Debt Value</u>	<u>Delegation</u>	<u>Source</u>
£500,000 +	Mayoral Proceedings	
£100,001 - £500,000*	Level 1	*With the agreement of the s.151 officer s.101 LGA 1972 s.9E LGA 2000
£25,001 - £100,000*	Level 2	*With the agreement of the s.151 officer s.101 LGA 1972 s.9E LGA 2000
£10,001 - £25,000	Level 3	
Up to £10,000	Level 4	

## Negotiated Settlements

<u>Debt Value</u>	<u>Delegation</u>	<u>Source</u>
£500,000	Level 1	*With the agreement of the s.151 officer s.101 LGA 1972 s.9E LGA 2000
£25,001 - £100,000*	Level 2	*With the agreement of the s.151 officer s.101 LGA 1972 s.9E LGA 2000
£10,001 - £25,000	Level 3	
Up to £10,000	Level 4	

Any Value – Level 1,2,3 – only in the absence of the Director of Finance, where it is in the Councils interest that a prompt decision is made.

Any value – where an instant decision is required i.e. negotiated settlement at Court – Level 4 officer.  
The reasons for the decision and agreed write-off amount to be presented to the appropriate officer according to the above scheme of delegation.

## 7 Performance Management

7.1 Write-offs are at the end of the “income chain”. In the past they have often been seen as inevitable and a fait accompli – certainly if no action is taken to recover debts, then they will eventually become statute barred purely through the passage of time. However, write-offs are indicative of possible failure and under performance in the earlier stages i.e. from charging policies through to debt recovery. Formal performance management arrangements e.g. BVPI’s focus on “in year” collection rates for Council Tax, Business Rate etc.

**DEBT WRITE OFF POLICY STATEMENT.**

1. The Council makes every effort to collect monies due, in order to maximise the resources it has to provide good quality services to the residents of Newham.
2. It is also aware of the impact that getting into debt can have on people and their families, so it also encourages people to pay, and aims to provide all reasonable facilities and assistance for them to do so.
3. However, it recognises that there will be occasions when debts become irrecoverable and will need to be considered for write off. The Council views such cases very much as exceptions.
4. Before writing off debt, the Council will satisfy itself that all reasonable steps have been taken to collect it and that no further recovery action is possible or practicable. It will take into account the age, size and type of debt, together with any other factors that it feels are relevant to the individual case.
5. The Council will consider write off in the following circumstances:
  - Debtor Insolvent
  - Debtor Deceased
  - Debt remitted by Courts
  - Debt becomes Statute Barred
  - Imprisonment of Debtor for non payment
  - Debt uneconomic to collect
  - Debt remaining following negotiated settlement
  - Debtor gone away and can't be traced.
6. For income related debts, these will normally only be considered for write off where the account is "closed". Only in exceptional circumstances will amounts on "live" accounts be considered for write off. Such cases must demonstrate that further recovery action will not achieve collection of the debt.
7. The Executive Director for Finance will be accountable to the Mayor and Cabinet for the effective management of debt write offs and will ensure that appropriate performance management arrangements are introduced across all Council service and debt areas.
8. Decisions on the write off of individual debts will be taken in accordance with the Council's Scheme of Delegation. They must also comply with all relevant statutory requirements and those of the Executive Director of Finance or their delegated representative.
9. The writing-off of working capital loans will be subject to this write-off scheme of delegation.



## DEBT WRITE OFF STRATEGY

1. Each debt area will have a “service manager”. The main debt areas are as follows:
 

<ul style="list-style-type: none"> <li>▪ Council Tax</li> <li>▪ Housing Rent</li> <li>▪ Business Rate</li> <li>▪ Housing Benefit Overpayment</li> <li>▪ Working Capital Loans</li> </ul>	<ul style="list-style-type: none"> <li>▪ Commercial Property Rents</li> <li>▪ Traffic Enforcement</li> <li>▪ Social Services</li> <li>▪ Sundry Debt (includes anything not specifically covered above)</li> <li>▪ Approved loans to Small Businesses and Social Enterprises</li> </ul>
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1. The Service Manager will be responsible for the regular review of debts and will consider the need for write off of individual debts on a quarterly basis.
  
2. Negotiated settlements generally result in the need for a write off. Any negotiation of a settlement at court will be the responsibility of the Service Manager, as such situations cannot be planned and we need to respond immediately. Any other negotiated settlement will require approval according to the Scheme of Delegation i.e. the write off amount is the sum being remitted through negotiation.
  
3. Prior to write off being proposed, the debt will be reviewed to ensure that no further recovery action is possible or practicable. This review will be conducted as follows:
  - Stage 1      Determine the reason for write off  
Those debts that have become irrecoverable as a result of insolvency, deceased, court remittal, statute barred, imprisonment, and through a negotiated settlement will be referred for write off.
  
  - Stage 2      Those debts that are being proposed for write off as uneconomic to pursue and gone aways must be subject to an investigation process based on the type, amount and age of the debt.
    - “Year” refers to the year in which the account was closed. The debt owing by the time the account is closed may be made up of a number of prior years’ amounts.
    - “Debt” means the total amount owing by an individual person or business within an individual debt area upon closure of the account. The tests applied above will identify whether a debtor owes money in other debt areas thereby enabling a corporate view to be taken of the write off proposal. This should minimise cases where one manager may recommend write off of a particular debt whereas another manager is actively pursuing recovery of another debt owed by the same person.

Stage 3

In considering the write-off of debts on “live accounts”, the following factors need to be taken into account.

- Will recovery action collect the debt?
- Has the debt arisen through no fault of the debtor?
- Has the debtor previously had a good record of paying?
- Could the debtor be classed as “vulnerable” and would recovery action increase their vulnerability?