

Name of meeting: Cabinet 28 July 2015

Title of report: Update on the progress of the final accounts process for 2014/15, including Bad Debts Write Offs

Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	No
Is it in the Council's Forward Plan ?	No
Is it eligible for "call in" by Scrutiny ?	No
Date signed off by Director	David Smith, Director of Resources - 30 June 2015
Is it signed off by the Director of Resources?	Yes - 30 June 2015
Is it signed off by the Assistant Director – Legal and Governance?	No legal implications
Cabinet member portfolio	Cllr Graham Turner

Electoral [wards](#) affected and ward councillors consulted: All

Public or private: Public

1. Purpose of report

- 1.1 The Council's accounts for 2014/15 need to be audited and approved by Corporate Governance and Audit Committee by the end of September 2015. This report gives an update on progress towards achieving the process by the required date.
- 1.2 Financial Procedure Rules require the Director of Resources to prepare an annual consolidated report on all debts written off for consideration by Cabinet and the Corporate Governance and Audit Committee. This report details the debts written off in the financial year 2014/15.

2. Key points

Progress on the final accounts -

- 2.1 The Accounts and Audit Regulations 2011 require that the Council's accounts for the year are completed and signed by the Section 151 Officer

by the end of June. Progress went well this year with the bulk of the accounts ready by 12 June. Following quality control checks, the Director of Resources signed the Statement of Accounts on 26 June 2015.

- 2.2 The draft accounts are available to view on the Council's website at – <http://www.kirklees.gov.uk/accounts>
- 2.3 Officers are currently working on a summary version of the accounts which aims to remove many of the technicalities of the full accounts and provide a simplified statement on the Council's financial position. Once finalised, the summary will also be available on the website.
- 2.4 The four week period when the public are permitted to inspect the accounts started on 29 June and will finish on 24 July 2015. Following this process, local electors may ask the auditor questions about or raise objections to items in the accounts.
- 2.5 The accounts are currently being audited and Corporate Governance and Audit Committee will be asked to approve the Statement of Accounts towards the end of September, once the audit has been completed. The September meeting will also be asked to approve a final version of Council's Annual Governance Statement and a Letter of Representation, which the Chair will sign on behalf of the Committee.
- 2.6 The audit will also cover the Whole Government Account return which helps accounts for all government bodies to be consolidated. The return was due to be submitted on 10 July.
- 2.7 The Accounts and Audit Regulations 2015 came into force on 1 April 2015 and apply to accounting years 2015/16 onwards. The main changes to the existing regulations are –
 - The timetable for closure of accounts is brought forward. The accounts must be completed and signed by the responsible officer by 31 May at the latest, and then audited and approved by members by no later than 31 July. These deadlines are respectively one and two months earlier than the current deadlines and have to be in place for 2017/18 closedown.
 - Period of exercise of public rights (rights of objection, inspection and questioning of the external auditor) to be exercised within a single period of 30 working days. This period to include the first 10 working days of July following the year end and from 2017/18 this becomes the first 10 working days in June. The current arrangements are a 20 working day public inspection period with the period for questions and/or objections to the auditor commencing from the date "appointed" by the auditor which immediately follows the inspection period and runs until the conclusion of the audit process.
 - A narrative statement must be prepared to support the statement of accounts. This must include a commentary on the authority's financial performance and economy, efficiency and effectiveness in its use of resources over the relevant financial year.

2.8 A working group of finance officers has already started preparatory work towards achieving the earlier closedown deadlines. The initial aim is to complete the accounts at least 8 working days earlier in each of the next 2 years. Themes being looked at include materiality levels, greater estimation techniques, flexibility of resource, continual challenge to processes/deadline, and third party engagement.

Bad debt Write-offs 2014/15 -

2.9 Financial Procedure Rules authorise Directors to write off all individual bad debts subject to the approval of the Director of Resources. A report on the details of all debts written off under delegated authority must be prepared and formally noted by the Director in consultation with the Cabinet Member. The Director of Resources has to prepare an annual consolidated report of all debts written off for consideration by Cabinet and the Corporate Governance and Audit Committee.

2.10 The appendix contains details of debts written off in 2014/15. The first table compares amounts written off in 2014/15 to those written off in 2013/14. The second table shows a detailed analysis of the reasons for write off in 2014/15. In both tables, the amount of debt raised in the financial year is shown as a guide - the amount written off in the year is not directly related to this as it is likely to include debt outstanding from previous years.

2.11 The tables show that £8.9 million of debt was written off in 2014/15 (£7.4 million in 2013/14). Members should note the following -

Council Tax and Business Rates

The figures for council tax and business rates demonstrate how important it is for everyone to pay their share of the council tax to help fund essential council services. Unfortunately, there will always be a minority of households who do not pay their council tax and business rate bills on time.

Kirklees is the seventh largest council in the country, so for Yorkshire and Humber Area we will always be towards the top of any monetary list. The Council has 181,300 properties liable for council tax and 14,900 properties for business rates.

The Council aims to maximise its collection and recovery of all council tax and business rates debts. The recovery process ensures that all accounts in arrears are chased through reminders, summonses, obtaining liability orders through Magistrates Court, if needed, that allow the Council to recover debts through using the bailiffs, attachment to earnings/benefits, issuing committal proceedings, instigating insolvency proceedings, or putting charging orders on the properties. The Council will use all the powers available to recover any amounts outstanding and this ensures all debts are pursued to maximise recovery.

The Council has a good record of taking strong recovery action to make the council tax charge as fair as possible, ensuring that everyone who should pay do so. It only writes off arrears where it appears it would not be cost effective to collect or the debtor has absconded.

In 2014/15 officers started to undertake an exercise to review the previous years' debts outstanding and be realistic on what is collectable and what debts are not. Where accounts were identified that have had previous recovery action (some over a number of years) and no further action is viable or cost effective, the debts have been written off as unable to collect.

This will ensure that collectable debts outstanding will be pursued through rigorous recovery action. Resources will be deployed to recover unpaid council tax or business rates quicker and more effectively once old debts that have been through the recovery process have been removed. Tighter processes and procedures have been put in place to maximise recovery of unpaid debts earlier in the process.

Payment by direct debit is encouraged and the Council currently has over 103,000 direct debits on council tax (63% of charge-payers). The more direct debit payers the Council has the better the recovery rate, allowing staff to concentrate on more difficult collection and recovery cases.

Benefits

The write offs for Customer and Exchequer Services relates to Housing Benefit overpayment recovery. The write off figure is relatively high because the households concerned are by definition the least able to pay. Recovery action is always pursued using all the recovery powers available; however, ability to pay is also a consideration.

Housing Rents

Expenditure and income relating to the provision of landlord services is ring-fenced or 'self-financed' through the Council's Housing Revenue Account (HRA). The Council is the landlord for 23,055 Council properties, and the day to day management of these, including income collection and debt recovery, is undertaken on the Council's behalf by Kirklees Neighbourhood Housing (KNH), an arm's length management organisation.

KNH manages the Council tenancies on the Council's behalf, and in accordance with the Council tenancy agreement, any costs incurred by the landlord, for which the tenant is deemed directly liable, the landlord will seek to recover, with the ultimate sanction of tenancy termination in extreme cases. On average, this affects only a very small proportion of tenants each year. The HRA write-off figure of £2.7m includes approximately £1.4m for former tenant liable costs, also referred to as rechargeable repairs, and for which there is an existing HRA bad debt provision set aside to cover.

The amount written-off in 2014/15 represents the conclusion of a major write off exercise targeting old former tenant debt from up to 10 years previous, and following an extensive review of this debt, it has now been processed for write-off. It should be noted that the introduction of the Universal Credit, in 2015/16, is likely to place additional pressure on debt recovery within the HRA.

As with council tax and business rates, debt recovery processes are similarly extensive, including the re-instatement of written-off arrears where

an ex tenant applies for or gets re-housed. The Council will use all the powers available to recover any amounts outstanding and this ensures all debts are pursued to maximise recovery. Payment by direct debit is encouraged, and the Council currently has over 8,500 tenancies on direct debit. The Council has also increased investment in KNH, paid for through HRA, for a range of preventative measures including debt advice and budget management to tenants, in particular acknowledging the specific impact of a range of current and future anticipated welfare reforms on tenants.

- 2.12 Whilst these debts have been formally written off in the accounts for 2014/15, this does not mean that the Council will not pursue this debt if new information comes to light and the prospect for recovery changes.

3. Implications for the Council

Failure to comply with the accounting and audit regulations could result in the Council's accounts receiving a qualified audit opinion, which would be damaging in terms of its reputation.

4. Consultees and their opinions

None.

5. Next steps

Corporate Governance and Audit Committee will be asked to approve the Statement of Accounts towards the end of September, once the audit has been completed.

6. Officer recommendations and reasons

- 6.1 Corporate Governance and Audit Committee are asked to note the progress on the final accounts for 2014/15.

- 6.2 Corporate Governance and Audit Committee and Cabinet are recommended to note the information in the Appendix on bad debt write offs for 2014/15.

7. Cabinet portfolio holder recommendation

To be reported at the meeting.

8. Contact officer and relevant papers

Tim Mitchell 01484 221000
Finance Manager

Accounts and Audit Regulations 2011 and 2015

9. Director responsible

David Smith 01484 221000

Debt write offs 2014/15

APPENDIX

Debit for year 2013/14	write offs during Apr13 - Mar14		Directorate	Debit for year 2014/15	write offs during Apr14 - Mar15	
£	£	%		£	£	%
5,336,825	13,323	0.2%	<u>Children & Young People</u> Children & Young Peoples Service	4,490,259	9,991	0.2%
			<u>Commissioning, Public Health & Adults</u>			
32,492,909	49,883	0.2%	Adults	34,189,554	43,123	0.1%
35,266	0	0.0%	Public Health	124,589	0	0.0%
			<u>Place</u>			
1,047,759	0	0.0%	Building Services	901,770	0	0.0%
4,697,931	25,897	0.6%	Investment & Regeneration	5,346,037	47,242	0.9%
8,611,118	107,129	1.2%	Streetscene & Housing	12,866,554	17,595	0.1%
11,027,022	118,739	1.1%	Physical Resources & Procurement	14,126,930	190,249	1.3%
			<u>Resources</u>			
1,811,253	292,588	16.2%	Customer & Exchequer Services	*19,386,005	272,947	1.4%
184,829	0	0.0%	Legal & Governance	151,096	0	0.0%
4,399,372	52,495	1.2%	Finance, Risk, Performance & IT	4,288,214	0	0.0%
			<u>Communities, Transformation & Change</u>			
11,011,781	0	0.0%	Support Services	*1,138,399	0	0.0%
5,324,489	-418	0.0%	Communities & Leisure	5,307,899	0	0.0%
85,980,554	659,636	0.8%	General Fund Services	102,317,306	581,147	0.6%
29,123,308	4,485,091	15.4%	HRA (excl those on benefits)	28,036,570	2,714,249	9.7%
162,615,692	1,405,008	0.9%	Council Tax	164,999,271	3,585,919	2.2%
104,645,504	890,105	0.9%	Business Rates	103,958,459	2,047,365	2.0%
382,365,058	7,439,840	1.95%	Grand Total	399,311,606	8,928,680	2.24%

* The variances are due to changes to the Council's organisation structure and reporting arrangements.

Nb. Income collection rates -

	<u>2013/14</u>	<u>2014/15</u>
Council Tax	93.5%	95.2%
NNDR	96.5%	96.7%
HRA (Rents)	96.8%	97.2%

Directorate	Debit for year 2014/15 £	write offs Apr14 - Mar15 £	%	Compassionate Grounds £	Deceased £	Liquidation/ Bankruptcy £	No Goods/ Unemployed £	Not Viable to Pursue £	Unable to Trace £	Statute Barred £	Misc £
<u>Children & Young People</u>											
Children & Young Peoples Service	4,490,259	9,991	0.2%			2,572		7,419			
<u>Commissioning, Public Health & Adults</u>											
Adults	34,189,554	43,123	0.1%	2,810	32,784			7,529			
Public Health	124,589	0	0.0%								
<u>Place</u>											
Physical Resources & Procurement	14,126,930	190,249	1.3%		447	100,733		69,821	8,032		11,216
Building Services	901,770	0	0.0%								
Investment & Regeneration	5,346,037	47,242	0.9%			24,896		22,346			
Streetscene & Housing	12,866,554	17,595	0.1%			5,974		9,316	1,611		694
<u>Resources</u>											
Customer & Exchequer Services	19,386,005	272,947	1.4%	22,660	48,660	36,906		116,266	10,911		37,544
Legal & Governance	151,096	0	0.0%								
Finance, Risk, Performance & IT	4,288,214	0	0.0%								
<u>Communities, Transformation & Change</u>											
Support Services	1,138,399	0	0.0%								
Communities & Leisure	5,307,899	0	0.0%								
General Fund Services	102,317,306	581,147	0.6%	25,470	81,891	171,081	0	232,697	20,554	0	49,454
HRA (excl those on benefits)	28,036,570	2,714,249	9.7%		133,328	35,813		1,788,985	223,885	465,595	66,643
Council Tax	164,999,271	3,585,919	2.2%	1,166,873	27,877	255,846		1,734,972	400,351		
NNDR	103,958,459	2,047,365	2.0%	41,863	2,560	480,256		1,160,898	361,788		
Grand Total	399,311,606	8,928,680	2.24%	1,234,206	245,656	942,996	0	4,917,552	1,006,578	465,595	116,097