

Audit Committee

22 November 2012

Council Tax Collection Performance & Provision for Bad Debts



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Purpose of the Report

- 1 This report provides members of the Audit Committee with an overview of in-year Council Tax collection performance for 2012/13 and an update on the collection rate for 2010/11 and 2011/12, together with an update on the Council Tax provision for bad and doubtful debts calculation.

Background

- 2 On 30 July 2012 the Committee considered the Statement of Accounts for the year ended 31 March 2012. Members referred to the increase in short term debtors under the category of 'other entities and individuals'. The increase from £60m to £71m was mainly due to the increase in Council Tax arrears (£7.6m) in year.
- 3 Members were advised that this was linked to the implementation of the new single Revenues and Benefits system 2011/12, during which unavoidable backlogs in benefit claims processing had arisen and recovery action had been limited in the first 9 months of the year.
- 4 Members were assured that recovery plans were in place and progressing well in terms of addressing the backlog of benefit claims and ensuring that all appropriate recovery action was now being taken, which had resulted in improvements in the recovery of the additional arrears that had built up in 2011/12, with improved in-year collection performance in the current year too.

Council Tax Performance

- 5 As part of the annual target setting process monthly targets are set based on changes to the payment trends of customers and the subsequent adjustment to recovery cycles accounting for these changes.
- 6 The 2012/13 recovery cycles have been adjusted to specifically target any customers that have made no payments or are at least two months in arrears. This ensures that those customers clearing their accounts before March 2013 do not receive any reminders avoiding unnecessary customer contact and postage costs.
- 7 There has also been an increase of direct debit payers paying over twelve months and the number of new non direct debit payers extending instalments to February / March 2013.

- 8 The in-year collection rate is monitored on a weekly basis, with monthly monitoring reports being considered by the Corporate Director, Resources and quarterly reports being considered by Corporate Management Team, Cabinet and Overview and Scrutiny Committee. This is supplemented by detailed management information tracking reminder processes; aged debt analysis reports showing the debt outstanding, the current recovery stage, and the length of time at the current stage etc.
- 9 The current in year collection rate of 55.2% at 30 September is 1.4% above the same position last year, which was 53.8% and is above the year to date target of 55%. The collection rate is still some way down on the 2010/11 performance at the end of September but comparisons with 2010/11 can be misleading due to the fact that there are more customers paying over 12 months now and there are an increased number of customers that delayed payment in 2011/12 that are making payments against this years and last years accounts.
- 10 To ensure that the collection fund attains a balanced / surplus position the overriding target is to ensure that Durham County Council collects at least 98.5% within a three year period. The tables below provide an overview of in-year performance and overall collection performance:

Table 1 – In Year Collection Performance

	Apr %	May %	Jun %	Jul %	Aug %	Sep %	Oct %	Nov %	Dec %	Jan %	Feb %	Mar %
2010/11	10.9	20.8	29.6	38.3	48.2	57.8	67.4	77.0	86.4	95.3	96.4	96.7
2011/12	9.4	18.3	26.7	35.3	44.5	53.8	64.0	72.9	80.7	89.7	92.6	93.8
2012/13	9.8	19.1	27.7	36.8	45.9	55.2	-	-	-	-	-	-
Target	10.0	20.0	28.0	36.5	45.5	55.0	65.0	75.0	86.0	96.0	96.8	97.3

Table 2 – Overall Collection Performance & Arrears Position

Performance Indicator - Council Tax Collected	Actual Collection Rate to 31 March 2011 %	Actual Collection Rate to 31 March 2012 %	Actual Collection Rate to 30 Sept. 2012 %	2012/13 Tracker Target %	3 Year Target %
2010/11	96.7	97.9	98.3	98.5	98.5
2011/12	n/a	93.8	95.6	96.8	98.5
Performance Indicator – Council tax Arrears (£)	Council tax Outstanding @ 31 March 2011 £	Council tax Outstanding @ 31 March 2012 £	Council tax Outstanding @ 30 Sept. 2012 £		
2010/11	5,980,643	3,722,233	3,305,782		
2011/12	n/a	11,719,875	8,551,293		
Performance Indicator – Council tax Write Off (£)	Written Off as Uncollectable 31 March 2011 £	Written Off as Uncollectable 31 March 2012 £	Written Off as Uncollectable 30 Sept. 2012 £		
2010/11	20,136	137,002	175,931		
2011/12	n/a	35,892	100,255		

- 11 To add further detail to the 2011/12 figures, the following changes have occurred during the period from 1 April 2012 to 30 September 2012:
- Net debit collectable has decreased by £0.932m, from £199.761m to £198.829m, this is due to the increase in benefit awarded (as the service has eradicated the backlog of claims and returned performance to pre-system implementation levels), plus other exemption and discount awards against 2011/12 liabilities.
 - Net payments received have increased by £2.727m, from £187.296m to £190.023m;
- 12 In addition to weekly / monthly monitoring of performance in respect of the current and previous two financial years, the service also monitors performance in recovering sums outstanding for all years prior to 2010/11. At 30 September 2012 the overall collection rate for all years prior to 2010/11 was 99.47%, with the percentage of Council Tax written off in relation to accounts falling due for these periods being 0.27%.

Provision for Bad and Doubtful Debts

- 13 The merger of the seven former District Council Tax systems into the single unitary system during 2011/12 provided the opportunity, through enhanced reporting functionality, for a review of the calculation of the provision for bad and doubtful debts.
- 14 Since 1 April 2009, in line with accounting policies, the provision was calculated as 30% of outstanding arrears at the year end, with no adjustment for age or stage of recovery reached for the debt. This was considered too crude a method and produced a provision for bad and doubtful debt below the required level and certainly lower than other authorities in the region. Taking into account a more considered approach linked to categorisation of the age and recovery stage of the debts, other authorities were making provisions of around 35% of arrears outstanding.
- 15 The ability to increase the overall proportion of the outstanding arrears covered by provision was affected by the fall in the collection rate during 2011/12, which increased the value of arrears outstanding at 31 March 2012, the reasons for which have been outlined earlier. If the method for calculating the provision had remained at a flat rate of 30%, as in previous years, then the provision would have increased by £2.5m from £4.5m to £7.0m.
- 16 It was realised that transition to the desired provision (c35% of arrears covered by the provision) could take a number of years if the stability of the Collection Fund was not to be undermined and an acceptable compromise was achieved at the end of 2011/12, applying differing rates for the age of the debts and the stage of recovery reached.
- 17 This change in accounting policy resulted in an increase to the 30% flat rate calculation previously used, resulting in a £0.7m increase in the required provision, bringing the total provision required to £7.7m at 31 March 2012. It is important to note that the accounting conventions require this provision to be divided between the major precepting authorities with Durham County

Council's share being £6.5m. In 2011/12 the overall coverage from the provision rose from 30% to 33.23%, a significant improvement.

- 18 The provision requirements relating to previous years are tracked each month and show a steady decrease in the amount required, in line with the increased collection rates demonstrated earlier in this report.
- 19 In addition the current year performance is encouraging in terms of provisions that will be required at the 2012/13 year end. Nevertheless, members of the Audit Committee should note that at the year end, when the recalculation of the provision is formalised, that an overall increase will be necessary to make progress towards the desired level of coverage set out above. It is expected that this will be offset by an improved position on the Collection Fund generally as a result of taxbase growth in year.

Conclusion

- 20 Council Tax was introduced in 1993 and during the period 1 April 1993 to 31 March 2012, Durham County Council and the former districts have been tasked with collecting a net council tax of £2,285bn. The overall collection rate as at 30 September 2012, for all prior years, stands at 99.0%, with only 0.24% having actually been written off as uncollectable. This is testament to the thorough and robust collection and recovery procedures used by Durham County Council.
- 21 The Councils financial strategy is to achieve coverage for bad and doubtful debt provisions of 35% of arrears outstanding. Significant progress was made towards that target in 2011/12 and further steps towards achieving that goal will be made in the current year.

Recommendations

- 22 Members are asked to note the in year and overall Council Tax collection performance as outlined in the report, together with the update on the provision for bad and doubtful debts.

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Appendix 1: Implications

Finance

The reports sets out details of the arrears recovery performance and impacts on the provision for bad and doubtful debts calculation.

Staffing

None

Risk

None

Equality and Diversity / Public Sector Equality Duty

None

Accommodation

None

Crime and Disorder

None

Human Rights

None

Consultation

None

Procurement

None

Disability Issues

None

Legal Implications

None