

Write-Off of Uncollectable Debts

Report of the Finance and Resources Portfolio Holder

Recommended:

That the business rates debts, shown in the table in paragraph 2.3 of the report, be written-off in the Council's accounts as uncollectable.

SUMMARY:

The report seeks approval for the write-off of six business rates debts that have proved to be uncollectable.

1 Introduction

- 1.1 The Council has processes in place to ensure that income due is identified, collected, receipted and banked promptly. However, there are occasions where money owed to the Council proves to be uncollectable.
- 1.2 The Council's Financial Procedure Rules give the Head of Finance and Revenues authority, in consultation with the appropriate Chief Officer, to approve the write-off of bad debts or other sums due to the Council up to a limit of £5,000.
- 1.3 Amounts in excess of £5,000 must be authorised by the Finance and Resources Portfolio Holder and amounts over £25,000 must be referred to Cabinet for approval.
- 1.4 This report seeks approval for the write off of six business rates debts above the £25,000 threshold that have proved to be uncollectable and for which there is little or no prospect of future recovery.

2 Background

- 2.1 Business rates charges must be made to parties liable to pay them, irrespective of their ability to pay. It is therefore inevitable that it will be necessary to write off certain amounts as uncollectable when, for example, businesses go into liquidation with arrears owed to the Council.
- 2.2 The Council has extremely limited power to pursue recovery of outstanding amounts owed when a company enters administration or goes into liquidation. However, the company may continue to occupy a premises and remain liable for business rates.
- 2.3 The debts recommended to be written off are summarised in the following table. A brief summary of account history and the actions taken to recover the debts and reasons for recommending the write off of each of these debts is shown in the following paragraphs.

Business	Reason for Write-Off	Amount £
Formation Freight Services Ltd	Company in compulsory liquidation	565,311
Wooshk Ltd	Company in creditors voluntary liquidation	123,479
An individual	No prospect of recovery	49,385
Colesbourne Asset Management Ltd	No prospect of recovery	190,887
An individual (deceased)	No prospect of recovery	126,489
Reborn Aviation Ltd	Company in creditors voluntary liquidation	26,429
Total		1,081,980

2.4 Formation Freight Services Ltd

2.4.1 This relates to a debt on a large industrial unit, with account balances from 2022 to 2024.

2.4.2 Liability Orders were obtained and enforcement agents were engaged to recover the debts but they were unable to recover funds before the company entered compulsory liquidation. Proof of debts has been provided to the liquidators, but no dividend is expected and therefore the full balance is recommended to be written off.

2.4.3 If any dividend is received from the liquidator, the amount repaid will be written back on to the account, effectively reducing the amount recommended for write off in this report.

2.5 Wooshk Ltd

2.5.1 This debt relates to 8 short-term occupation accounts at the same address between October 2019 to May 2021. The company occupied the property for the minimum six-week period after which the owner would be eligible for a new three-month empty property rate relief.

2.5.2 Attempts to recover the balance owed, including use of enforcement agents, have proved unsuccessful and the company entered creditors voluntary liquidation in December 2023. There is no further recovery action that can be undertaken and the debt is therefore recommended to be written off.

2.6 An individual

- 2.6.1 This is an open account, with the write-off recommended in respect of financial years 2019/20 to 2023/24.
- 2.6.2 The property in question was added to the rating list in October 2023, with an effective date in January 2020. A backdated bill was promptly produced and recovery action begun.
- 2.6.3 An application to the Magistrates' Court for a Liability Order was refused. The grounds for refusal given were that the Council should have taken steps to bring the property into rating sooner and therefore it would not be appropriate to backdate the full recovery. Without a Liability Order, there is no further action that the Council can take to recover the debt and therefore it is recommended to be written off.
- 2.6.4 As this account is in the name of an individual and not a limited company the ratepayer's name has not been disclosed.

2.7 Colesbourne Asset Management Ltd

- 2.7.1 This relates to an old debt for an account that was open between 2011-2013. The extent and timing of the occupation was disputed and the Council was unable to obtain sufficient evidence of liability to secure a Liability Order.
- 2.7.2 Without a Liability Order there is no chance of recovering this debt and it is therefore recommended to be written off.

2.8 An individual (deceased)

- 2.8.1 The total balance relates to twelve separate accounts for multiple properties that were used for the business of an individual who is now deceased. The account balances are old and relate periods between 2011 and 2018.
- 2.8.2 Liability Orders were not obtained in respect of these debts and there is no prospect of recovery, therefore the debt is recommended to be written off.

2.9 Reborn Aviation Ltd

- 2.9.1 This debt relates to an account with balances outstanding between 2021 and 2024, when the company entered into creditors voluntary liquidation. All balances prior to this period (from occupation in 2016) were paid in full.
- 2.9.2 The Council obtained a Liability Order for the arrears and engaged enforcement agents to attempt recovery. Various payments were made accounting for approximately half of the total amount due, with a balance of £26,429 outstanding.
- 2.9.3 The Council is an unsecured creditor and is very unlikely to receive any dividend from the liquidation. There is no realistic prospect of recovery and no further action that can be taken to recover the debt.

3 Options

- 3.1 All options to recover the above debts have been exhausted and this report therefore recommends that the only remaining option is to write off the amounts as irrecoverable.
- 3.2 There are no alternative options available to continue recovery action for these debts.

4 Risk Management

- 4.1 An evaluation of the risks indicates that the existing controls in place mean that no significant risks have been identified at this time.

5 Resource Implications

- 5.1 As part of the preparation of the Collection Fund (the statutory account through which Council Tax and Business Rates are administered) the Council makes an allowance for uncollectable debts. The allowance reflects that it is not possible to collect 100% of bills raised due, for example, to company failure. Collection rates are consistently between 98% and 99% of amounts due.
- 5.2 An allowance for non-collection of debts is prepared at the end of each financial year. The bad debt allowance calculation is based on a number of factors, including the age of debts and the recovery stage to which they have been progressed. The bad debt allowance at 31 March 2024 included £709,910 in respect of the debts in the report, of which the Council's share (20%) is £141,982. This amount has therefore already been built into prior year accounts as potentially uncollectable.
- 5.3 The impact of writing off business rates debts is shared between the Council, central government, Hampshire County Council and Hampshire Fire and Rescue Service. The impact on the Council's budgets is shown in the table below.

	£
Total value of business rates debts to be written off	1,081,980
Other bodies' share of total debt (60%)	(649,188)
Reduced levy on business rates growth	(216,396)
Council share of bad debt	216,396
Less: Amounts already provided in previous years' accounts	(141,982)
Charge to the bad debt allowance in 2024/25	74,414

5.4 The net cost of the debt recommended for write-off can be contained within the bad debt allowance for the current year. Therefore, approving the write-off of these debts does not create a budget pressure in the Collection Fund.

6 Legal Implications

6.1 There are no legal implications arising from the recommendations in this report.

7 Equality Issues

7.1 No equalities issues have been identified in the preparation of this report.

8 Conclusion

8.1 The report identifies six debts for which there is no reasonable prospect of recovery. It is recommended that they are written off in the Council's accounts.

<u>Background Papers (Local Government Act 1972 Section 100D)</u> None			
<u>Confidentiality</u> It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	None	File Ref:	N/A
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