

<b>Committee(s):</b> Finance Committee	<b>Date(s):</b> 21/01/2020
<b>Subject:</b> Provision for Bad and Doubtful Debts - Proposed Methodology 2019/20	<b>Public</b>
<b>Report of:</b> Chamberlain	<b>For Decision</b>
<b>Report author:</b> Laura Yeo, Senior Accountant, Financial Services Division	

### Summary

At this Committee's September 2019 meeting Members reviewed an annual paper reporting the level of provision provided for bad and doubtful debts at 31<sup>st</sup> March 2019.

The purpose of this report is to address Members request for this information to be presented earlier in the financial cycle to ensure Members are clear on the position before the financial year end. It sets out for Members consideration the proposed approach by which debt will be analysed and provisions determined for the year ending 31<sup>st</sup> March 2020.

Following the recommendations prescribed in the CIPFA Code of Practice, which guides public bodies approach to financial management and compliance with accounting standards, when assessing the level of bad debt provision required, the proposed approach is:

- review aged debt report at 31<sup>st</sup> March with debtor balances analysed into aged brackets;
- examine debt identified as bad or doubtful by Comptrollers;
- evaluate significant debts on individual customer basis;
- make 100% provision for debts, relating to former tenants that are not in a formal repayment; and
- apply a provision matrix for remaining debt with varying percentages based on historical loss rates adjusted for current knowledge, and for City Fund debt only also adjusted to reflect relevant future economic factors.

### Recommendation

Members are asked to:

- Agree the proposed approach by which debt will be analysed and provisions determined for the year ending 31<sup>st</sup> March 2020.

## Main Report

### Background

1. At this Committee's September 2019 meeting Members were presented with an annual paper which outlined the bad debt provisions at the financial year end. At 31<sup>st</sup> March 2019 the total provision for bad and doubtful debts stood at £8.1m (19% of debt). The following table sets out the provisions at 31<sup>st</sup> March 2019 in the context of estimated annual invoiced income and outstanding debt.

Committee	Annual Invoiced Income 2018-19	Debt	Provision
		31/03/2019	31/03/2019
	£m	£m	£m
Planning and Transportation	17.5	8.3	6.0
Property Investment Board	153.5	9.6	0.7
Barbican Centre	12.5	3.0	0.6
Community and Children's Services	15.7	5.4	0.4
Barbican Residential	13.8	2.4	0.1
Police	18.9	2.1	0.1
Other Committees*	108.5	11.1	0.2
<b>Totals</b>	<b>340.4</b>	<b>41.9</b>	<b>8.1</b>

\*Other Committees comprise provisions of £100k or less

2. At this meeting it was requested for this information to be presented earlier in the cycle to ensure Members are clear on the position before the financial year end. This report sets out for Members consideration the proposed approach by which debt will be analysed and how the required level of bad debt provision will be determined for the year ending 31<sup>st</sup> March 2020. This allows Members' comments to be incorporated into the process ahead of the financial year end so that the tight closing programme is not delayed.

### Current Position

3. Following the recommendations prescribed in the CIPFA Code of Practice, when assessing the level of bad debt provision required the proposed approach is:
  - review aged debt report at 31<sup>st</sup> March with debtor balances analysed into aged brackets;
  - examine debt identified as bad or doubtful by Comptrollers;
  - evaluate significant debts on individual customer basis;
  - make 100% provision for debts, relating to former tenants that are not in a formal repayment; and
  - apply a provision matrix for remaining debt using a provision matrix with varying percentages based on historical loss rates adjusted for current knowledge, and for City Fund debt only also adjusted to reflect relevant future economic factors.

4. This approach is adopted by Departments and tailored to individual circumstances and income streams whilst utilising local knowledge. Appendix 1 provides the detailed proposed approaches for the year ending 31<sup>st</sup> March 2020 by Committee and income system. Key areas are addressed below.
  - Planning and Transportation – Penalty Charge Notices  
Provision is calculated based on an historical analysis of Penalty Charge Notice collection rates from 2012/13 onwards, taking into account factors including cancellations, write-offs, cash receipts and age of debt.
  - Property Investment Board – Property Accounts Receivable  
Debt in relation to the City Corporation's investment property portfolio is reviewed on a tenant basis. A minimum of 80% by value of debt is reviewed by Management Surveyors considering Comptrollers advice to determine likely recoverability and establish the specific bad and doubtful debt position. Aged provision rate percentages based on past debt collection experience are applied to the remaining debt balance apportioned between aged brackets.

## Proposal

5. It is recommended that there is no change to the current proposed approach by which debt will be analysed and provisions determined for the year ending 31<sup>st</sup> March 2020.
6. The table below shows the provisions set as a proportion of debt outstanding by age bracket. The actual write offs in the financial year 2018/19 were 21% against a 17% provision set at 31<sup>st</sup> March 2018 and for the financial year 2017/18 were 11% against a 13% provision set at 31<sup>st</sup> March 2017. This would indicate that the current method is a good indicator of future write off levels, which ensures the City Corporations financing position is not overstated.

Age of Debt	Financial Year		
	31/03/2017	31/03/2018	31/03/2019
< 3 months	2%	6%	3%
3 – 6 months	16%	23%	17%
6 – 12 months	33%	49%	41%
> 1 year	58%	52%	62%
<b>Total</b>	<b>13%</b>	<b>17%</b>	<b>19%</b>

## Corporation & Strategic Implications

7. None.

## Financial Implications

8. Change to provisions impact the annual outturn position as funds are set aside from the revenue account to the balance sheet and held until required.

## **Conclusion**

9. This paper sets out the current proposed approach to be adopted for the calculation of the bad debt provisions for the year ending 31<sup>st</sup> March 2020 which Members are asked to agree.

## **Appendices**

- Appendix 1 – Proposed Methodology 2019/20 by Committee and income system

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