HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Deputy Chief Executive and Director of Corporate Operations
Date:	27 March 2025
Title:	Amendment to financial procedures – Debt Write-Off
Report From:	Deputy Chief Executive and Director of Corporate Operations

Contact name: Andrew Lowe

Email: **Andrew.lowe@hants.gov.uk**

Purpose of this Report

1. The purpose of this report is to update the County Council's financial procedures to update the requirements in relation to debt write-offs.

Recommendation(s)

2. To approve updated financial procedures to update the requirements in relation to debt write-offs

Executive Summary

3. The County Council's financial regulations form part of the constitution and are supported by more detailed guidance in financial procedures.

4. The successful collection of debts due to the County Council is an important part of the County Council's financial management. There are times however where it may be determined that all appropriate avenues for recovery have been exhausted and debts need to be written-off.

5. The approval thresholds for debt write-offs have not been reviewed and updated for some time. This report recommends amending these decision thresholds to reflect the impact of inflation since the last review and to support business efficiency. The proposed thresholds have been benchmarked against publicly available information on other comparable large upper tier authorities.

6. It is proposed that the threshold above which the Leader must approve write-offs is increased from £15,000 to £100,000, and that the CFO is therefore able to agree the write off of debt up to £99,999.

7. It is also proposed that the Chief Financial Officer is able to write-off any debt regardless of the amount where it is clear that there is a technical/legal

reason which means that the debt is not collectable even if we were to pursue it further through legal means; in these instances the CFO is not exercising a discretionary view as to whether to further pursue or write off a debt, as there is no choice but to write off the debt (see examples below, primarily will be where it is clear that there are no funds available and the debt is uncollectable). Similarly it follows that the Leader would not be taking a decision to 'agree' a write off in these circumstances where the debt was £100,000 or more, as the debt is simply not collectable, hence this proposed change in approach. Examples of where this may the case are:

- where a company has gone into liquidation and the liquidator has confirmed that there are no funds available for distribution or no funds available beyond a distribution to preferred creditors
- the debtor is deceased and there are no funds left in the estate
- there is no legal basis for recovery due to the statute of limitations or the requirements of the Care Act 2014

8. Neither of the above changes will impact the County Council's debt management processes or the amount of evidence that will be required to process the writing off of debts once all appropriate avenues for recovery have been exhausted.

9. The Chief Executive and Leader have been consulted on these changes and are content to support the proposed changes.

10. Where a debt to be written off in accordance with paragraph 7 is above £1m, the Leader will be informed in advance of the CFO decision.

Contextual information

11. The County Council's constitution includes its financial regulations (Part 3 Chapter 5). The financial regulations identify the financial responsibilities of members and officers and are the regulatory framework within which the financial affairs of the County Council operate. The Chief Financial Officer is responsible for maintaining a continuous review of these regulations.

12. More detailed guidance on how the regulations should be implemented in practice is contained in financial procedures which are applicable to all members and all staff.

13. The Local Audit and Accountability Act 2014 requires relevant authorities to keep adequate accounting records. These are records that are sufficient to show and explain the authority's transactions; disclosure the financial position of the authority with reasonable assurance; and enable the authority to meet requirements for preparing its statement of accounts. Requirements relating to accounting records and control systems are also set out in the Accounts and Audit Regulations 2015.

14. Paragraph 5.6 of the financial regulations covers income and expenditure. It states that:

> *“It is the responsibility of Chief Officers to ensure that a proper scheme of delegation has been established within their area and is operating effectively. Scheme of delegation should identify staff authorised to act on the Chief Officers’ behalf, or on behalf of the Executive Members, in respect of payments, income collection and for placing orders together with the limits of their authority.*
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> *“**The Chief Financial Officer is responsible for** specifying the procedure to be followed in ordering, making payments, collecting income and **approving procedures for writing off debts** as part of the overall control framework of accountability and control.”*

15. It is important that the County Council takes all appropriate and reasonable steps to collect the income that it is due. Where all such steps have been exhausted there may be no alternative than to write-off the relevant debt. The financial procedures therefore provide further details about responsibilities and thresholds for debt-write off and a flowchart on dealing with debt.

Amendments to debt write-off procedures

16. The thresholds for debt write-off in the financial procedures have not been updated for some time. The current procedures allow the Chief Financial Officer to agree to write-off debts below £15,000 in consultation with the relevant Chief Officer. For debts above this amount, the approval of the Leader is also required alongside any legal advice as necessary.

17. The Chief Financial Officer is proposing to amend the thresholds so that debts above £100,000 require the approval of the Leader, with any debts below this amount being able to be approved for write-off by the Chief Financial Officer in consultation with the relevant Chief Officer (appendix 1).

18. The Chief Financial Officer proposes this amendment for a number of reasons:

    a) The impact of inflation since the thresholds were last revised
    b) In particular for Care Costs, costs have risen significantly above inflation and a debt of £15,000 or more can accrue in a short space of time
    c) The Council’s overall gross budget excluding schools is over £1bn, so £15,000 is a very small debt when taking account of the overall size of the Council’s spend.
    d) Operational effectiveness and business efficiency
    e) Evidence from other large County Council’s which supports an increased limit to £100,000 (see paragraph 25)

19. It is important to consider operational effectiveness and the efficient use of the County Council's limited resources. The successful collection of amounts due to the County Council is important at any time but even more so in this period of financial stress. Changing financial procedure thresholds will not therefore change the need for thorough and effective debt collection processes. The changes outlined above will however allow the County Council to operate more efficiently by reducing administrative burdens and allowing for more timely action to write-off lower-level values of debt where all appropriate avenues for recovery have been exhausted, assisting the County Council's financial monitoring and balance sheet management.

20. The Chief Financial Officer is also recommending a change to financial procedures for debts where it has been concluded that there is a technical/legal reason that meanes the debt is simply not collectable even if it were to be pursued through legal action, for example:

    a) It has been confirmed that the debtor has no funds/estate available on which it is possible to claim for recovery of the debt; or

    b) The statute of limitations means that the debt cannot legally be pursued; or

    c) The provisions of the Care Act 2014 mean that the debt cannot legally be pursued.

    d) where a company has gone into liquidation and the liquidator has confirmed that there are no funds available for distribution or no funds available beyond a distribution to preferred creditors

21. In these cases, the County Council is unable to make any decision other than to write-off the debt. It is therefore proposed that in the interests of business efficiency financial procedures are amended to state that debts meeting the criteria in paragraphs 20 a – d (and any other debt which the CFO would deem to meet the technical/legal point of being uncollectable) can be written off by the Chief Financial Officer in consultation with the relevant Chief Officer and any legal advice as necessary regardless of the value.

22. Where any such write-offs are above £100,000, the Chief Financial Officer will however inform the Leader of these write-offs on a regular basis and the rationale for why the write-off(s) met the criteria for not requiring a discretionary decision by the Leader. The Leader will be informed of any write-off above £1m which is to be written off for 'technical/legal' reasons (in accordance with paragraphs 7, 10 and 20-21) in advance of the CFO decision.

23. The procedures above relate to debt write-offs. Where it is determined that the full amount owed by an individual or organisation was raised in error then the cancelled debt is written back to the originating service budget. This would be the case where the debt was either not due in the first place or it cannot be proved that the debt was due. Debt write-back procedures should be followed in this case.

24. The text in the financial procedures and directorate Schemes of Authorisation will be updated to reflect these changes.

25. The Chief Financial Officer needs to ensure that the financial regulations and procedures are appropriate to the operation of Hampshire County Council's finances. The debt write-off processes therefore need to be appropriate to the County Council specifically, however the thresholds used by comparable large upper tier local authorities has been reviewed for comparison and the financial regulations for Essex County Council and Surrey County Council both allow debt write-offs by the Chief Financial Officer up to a limit of £100,000. The change being proposed in this report is not therefore out of step with other comparable organisations.

26. The Chief Financial Officer has consulted with the Leader and Chief Executive on these changes.

Finance and accounting

27. Since the introduction of IFRS 9 in 2018/19 it has not been allowable in the Code to have a provision for bad debts. Instead, the County Council calculates an expected loss allowance (ELA) for invoiced debtors. This loss allowance is based on an estimation of the likelihood of being unable to collect on debts due at the balance sheet date.

28. The expected loss allowance included in the County Council's accounts at 31 March 2024 was £22.5m. Any change to the ELA to reflect an increase or decrease in the appropriate allowance for debt is charged to the County Council's revenue budget. In the CIES within the statement of accounts this is presented as 'financing income or expenditure' reflecting that this is a financing transaction. The subsequent write-off of any individual debt is charged to the ELA.

29. Where a debt is written back because it is determined the full amount owed was raised in error then the amount is written back to the originating service's cost centre. Write backs will typically be confirmed more quickly than write-offs because they are correcting an error.

30. On the basis that debt brought forward for write off is legitimate having followed due process to determine the debt is no longer worth pursuing, as there in no reasonable prospect of collecting the debt or the cost of pursuing the debt is prohibitive in terms of cost benefit, then the financial impact of the changes proposed in this report will be nil as the debt would also have been written off under the existing financial procedures; however the changes streamline the process, and the requirement for a decision report is more proportional to the size of the Council's overall budget and whether or not the Leader is exercising discretion to taking a write off decision.

Climate Change Impact Assessment

31. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

32. There are no direct climate change impacts from this report, which is about a change to decision thresholds for debt write-offs.

Conclusions

33. The successful collection of amounts due to the County Council is an important part of the County Council's financial management. There are times however when it may be that it is determined that all appropriate avenues for recovery have been exhausted and debts need to be written-off.

34. The thresholds for decision making in relation to debt write-offs have not been reviewed for some time. This report therefore recommends amending these decision thresholds to reflect the impact of inflation since the last review and to support business efficiency.

35. The changes will not impact the County Council's debt management processes or the amount of evidence that will be required to process the writing off of debts once all appropriate avenues for recovery have been exhausted.

EQUALITIES IMPACT ASSESSMENT:

Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally low.

Equalities Impact Assessment:

This decision report relates to a change in the thresholds levels for decision making on the write-off of debts and should not therefore have any adverse impact or cause disadvantage to groups with protected characteristics

Appendix 1

Debt to be written off	CFO	CFO in consultation with Chief Officer	Leader	Threshold
Any debt where it has been confirmed that the debtor has no funds/estate available on which it is possible to claim for recovery of debt	X			Any*
Any debt where the statute of limitations means that the debt cannot be legally pursued	X			Any*
Any debt where the provisions of the Care Act 2014 mean that the debt cannot be legally pursued	X			Any*
All other debt where all appropriate avenues for recovery have been exhausted			X	£100,000+
All other debt where all appropriate avenues for recovery have been exhausted		X		£1,000 to £99,999
All other debt where all appropriate avenues for recovery have been exhausted	X			Under £1,000

* The Leader will be informed in advance of any CFO decision for any debt above £1m. For any write-off above £100k the CFO will inform the Leader of these write-offs on a regular basis and the rationale for the write-off.