

## WEST DUNBARTONSHIRE COUNCIL

### Report by the Executive Director of Corporate Services

Corporate and Efficient Governance Committee : 22 December 2010

---

**Subject: Collection of Commercial Debt**

#### 1. Purpose

- 1.1 The purpose of this report is to update Members on the current level of debt owed to the Council for commercial and industrial rents and to make recommendations for future recovery actions.

#### 2. Background

- 2.1 As at 31 March 2010 the Council was owed the following sums from commercial and industrial organisations:

Commercial Rents	£161,463.60
Industrial Rents	£104,545.67
Other Charges e.g. Insurance	£ 35,551.50

- 2.2 Any sums not collected or provisions made for bad debts fall as a charge upon the Council.
- 2.3 The Council has 51 home owner mortgage accounts in operation with a total value of £295,000.

#### 3. Main Issues

- 3.1 With respect to commercial and industrial rents, as a condition of their lease, industrial and commercial organisations are required to pay their rent in advance, usually by bank standing order. The exception will be for any backdated rent reviews whereby invoices are issued for the backdated element of the review. In a full year the value of invoices issued for commercial and industrial rents is approximately £4.9m.
- 3.2 Ad hoc accounts issued for insurance and other factoring charging are payable upon issue of an invoice.
- 3.3 If any account, whether for rent or other charges, is not paid a reminder is issued 42 days from the date of the original invoice. Second and third reminders are issued thereafter and, if the account remains unpaid at the expiry of the third notice (63 days after the issue of the original invoice), the account is passed to the arrears section for recovery. These parameters are in place for all sundry debtor accounts.

- 3.4** Once passed to the arrears section, all large accounts are examined immediately and contact is made with the debtor to secure repayment. If no repayment is secured, legal action can be taken to irritate the lease and collection agents engaged to recover the debt.
- 3.5** As indicated above, the full reminder period can last for 63 days before formal recovery action is undertaken. However, it is possible to amend reminder periods and accelerate recovery actions. In addition there is a market place available to sell on these debts to third parties for collection. In the current economic climate the sale value of these debts may be heavily discounted to as low as 30% of the invoice value.
- 3.6** With regard to home loans, the administration of this portfolio has been outsourced since 1998. There are currently 51 mortgage accounts advanced by the Council with a total debt outstanding of £295,000. These mortgages generate £17,000 interest to the Council each year. Current market rates indicate that the Council could generate a receipt equivalent to 86% of the total loan value i.e. £253,700.

#### **4. People Implications**

- 4.1** There are no people implications.

#### **5. Financial Implications**

- 5.1** The Council's budget for each assumes an income from commercial and industrial premises. Procedures are in place to collect these sums but there can be a 63 day delay between the date of the invoice being issued and the date of legal action to recover the debt being taken. The follow up action for commercial rents can be amended to a single 'first and final' reminder being issued before legal action to recover the debt is taken.
- 5.2** Home Loans generate an income of £17,000 to the Council each year. Selling the portfolio could generate a capital receipt up to the value of £253,700.

#### **6. Risk Analysis**

- 6.1** The Council's budget assumes an income from commercial and industrial premises amounting to approximately £4.9m. Failure to collect these sums would have an adverse effect upon the Council's budget.

#### **7. Equalities Impact**

- 7.1** No significant issues were identified in a screening for potential equality impact of this measure.

## **8. Conclusions and Recommendations**

- 8.1** Committee is asked to note that follow up procedures for industrial and commercial debts will be amended to a single 'first and final' reminder being issued before being passed to legal debt recovery for action. In addition, Committee is invited to recommend that bids be invited for the Council's home loan portfolio and that a report is brought back to Committee thereafter with appropriate recommendations.

.....  
**Joyce White**  
**Executive Director of Corporate Services**  
**Date: 2 December 2010.**

---

**Person to contact:** Vincent Gardiner, Client & Support Manager  
Telephone 01389 737192  
Email: [Vincent.gardiner@west-dunbarton.co.uk](mailto:Vincent.gardiner@west-dunbarton.co.uk).

**Appendices** None

**Background Papers:** None

**Wards affected:** All Council wards