HALIFAX

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Item No.
Audit & Finance Standing Committee
October 18, 2017

TO: Councillor Bill Karsten, Chair and Members of the Audit & Finance Standing Committee

SUBMITTED BY:

Original Signed

Jacques Dubé, Chief Administrative Officer

Original Signed

Jerry Blackwood, Acting Director/CFO of Finance & Asset Management

DATE: September 25, 2017

SUBJECT: **Write-off of Uncollectible Accounts – Sackville Sports Stadium**

ORIGIN

Staff and HRM Charter requirement.

LEGISLATIVE AUTHORITY

Section 42 of the Halifax Regional Municipality (HRM) Charter states that:

> The Treasurer shall promptly advise Council of
>
> (a) all moneys due to the Municipality that the Treasurer considers cannot reasonably be collected after pursuing all reasonable avenues of collection; and
>
> (b) the reasons for the belief that such moneys cannot be collected,
>
> and the Council may write off the amounts determined to be uncollectible.

Administrative Order 18, The Revenue Collections Policy states that:

5.0 Other Collection Policies

> (f) No account will be sent to write off unless all efforts have been exhausted in its collection and will only be so sent after recommendation of supervisor and concurrence of team leader and manager.
>
> (g) Only Council can approve final write off of any revenue accounts. Such write off reports will be provided not less than once per year.

RECOMMENDATION

It is recommended that the Audit and Finance Standing Committee:

1. Recommend to HRM Regional Council that the total outstanding accounts receivable of the Sackville Sports Stadium in the amount of $295,032.74 comprised of $295,032.74 principal and $0.00 interest be formally written out of the books of account; and

2. Forward the private and confidential In Camera report "Write-off of Uncollectible Accounts – Sackville Sports Stadium - Details" to HRM Regional Council as an In Camera Information Report, and that the report not be released to the public.

BACKGROUND

The HRM Charter requires that all accounts considered uncollectible and which are to be removed from the accounts of the HRM be approved by Council. Administrative Order 18, The Revenue and Collections Policy, section 5(f) states that no account will be sent to write off unless all efforts have been exhausted in its collection and the appropriate recommendations and approvals are in place; and section 5(g) requires staff to provide Council with a write-off report at least once per year. The last write-off report to Council was on March 21, 2017.

The Sackville Sports Stadium (SSS) was a Multi District Recreation Facility (MDF) that was managed and operated by a community board until the board dissolved in 2003. The facility continued to operate as an MDF until fiscal 2013-14, when HRM absorbed the facility and operated it as an HRM owned facility. Annual revenue generated by SSS is $1.8M. To staff's knowledge, this is the first formal write-off for SSS.

DISCUSSION

For Privacy reasons, schedules listing account names and the reason for the SSS write-off can be referenced in the In Camera Information Report, "Write-off of Uncollectible Accounts – Details". The receivables proposed for write-off relate to recreation programming and memberships. In 2007, SSS made some key changes to its Membership contract agreement based upon recommendations received from an independent private fitness facility consultant. Some of these changes included, but were not limited to the implementation of an auto-renewal feature for all memberships. Under the new membership policy, SSS would hold clients to the terms and conditions of their original contract even if the client requested early cancellation. For example, if the client 3 months after signing a 1-year contract, and paid their membership fees in monthly installments, notified the facility of their desire to cancel their membership, SSS would refuse the cancellation and hold the client accountable to the original 1-year commitment. In the same period, the fitness industry grew in the Sackville market with new competition emerging. As a result, SSS started to experience a decline in its membership base causing an increase in cancellation requests. Staff continued to follow SSS policy, and required exiting members to honour and fulfill their original contracts. The continued billing process that resulted from this policy (either through credit card or authorized withdrawal from the clients' financial institution) forced many former members to cancel and/or change their financial service providers to stop SSS from continuing to process their payments. Despite this reality, SSS continued to invoice the monthly membership fees and subsequent NSF fees as accounts receivable until the end of the original membership contracts.

These policies and procedures remained in place until November, 2016. HRM Legal has reviewed previous contracts used by SSS in the past and determined some were not valid either for a lack of proper terminology, or the lack of sufficient signatures. The rigid membership policy, in addition to lack of documentation, provided a real challenge with respect to collections. Collection effort to recover the outstanding membership fees was initiated by SSS staff, with little success. As the majority of the accounts are very old and have not been acted on in a while from a collections perspective, it is staff's recommendation that they be written-off.

In November 2016, under the direction of the new General Manager, the SSS membership cancellation policy was amended to stop the continued buildup of the facility's accounts receivable, and to mitigate the negative customer experiences by exiting members. Effective November 2016, exiting members of SSS have been permitted to cancel their memberships provided 30 days' notice is given, regardless of whether their membership term has been completed. This change in policy is less restrictive on members and is more in-line with the private fitness industry. Additional process changes have been developed to further ensure outstanding accounts receivable are followed up on in a timely manner, and supporting documentation is complete and organized. The new policy and procedures to address the accumulation of accounts receivable from memberships, program registrations and facility rentals have resulted in a large reduction in the amount of aged accounts receivable.

FINANCIAL IMPLICATIONS

Each year the provision for losses on accounts is budgeted in the operating fund as mandated by the HRM Charter.

The HRM Charter section 93(1) – (2b) requires that:

93 (1) The Council shall make estimates of the sums that are required by the Municipality for the fiscal year.

(2) The estimates shall include the probable revenue from all sources other than taxes for the fiscal year and make due allowance for

(a) the abatement and losses that might occur in the collection of the taxes; and

(b) taxes for the current fiscal year that might not be collected.

This provision is accumulated each year in the valuation allowance account in order to offset on the balance sheet the value of the receivables recorded in the books of account. In this way, and in accordance with legislation and with generally accepted accounting practices, there is recognition that not all accounts billed will be collectible.

Accounts proposed for write-off in this report have been 100% provided for in the annual valuation allowance expense. As of August 31, 2017, gl account 2525 – Allowance Other has a balance of $19,413,301.

RISK CONSIDERATION

Total amounts proposed for write-off as a percentage of billed revenue since 2006-07 is 1.08% indicating low financial risk. As per the financial implications section of this report, financial risk is mitigated through the valuation allowance. All amounts proposed for write-off in this report have been 100% allowed for.

COMMUNITY ENGAGEMENT

N/A

ENVIRONMENTAL IMPLICATIONS

N/A

ALTERNATIVES

None

ATTACHMENTS

None

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

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