

Brighton & Hove City Council

For general release

Meeting: Finance Sub-Committee
Date: 21 September 2007
Report of: Director of Finance & Resources
Subject: Debt Collection and Recovery

Ward(s) affected: ALL

1 Purpose of the report

- 1.1 This report informs the sub-committee of progress to date on the work of the Corporate Debt Management Group (CDMG) and income collection services to improve income collection and debt recovery practice and performance. The report also proposes a Corporate Debt Collection and Recovery Policy for members' approval.

2 Recommendations

The sub-committee are recommended to:

- 2.1 Note the steps being taken to improve debt collection and recovery.
- 2.2 Approve the proposed Corporate Debt Collection and Recovery Policy.

3 Information and Background

- 3.1 Income collection has always been closely scrutinised from a stewardship viewpoint but in recent years it has been the focus of increased performance scrutiny because of the significant financial benefits that may be realised from efficient collection. Generally, minimising write-offs and collection errors improves the amount of income collected by the Council while improving the speed of collection improves cashflow and results in interest savings.
- 3.2 Interest rates are relatively low at present and any savings from speeding up collection may therefore be relatively modest, however, there are other reasons why speeding up collection can significantly improve the Council's financial position:-

- i) The faster a debt is collected the cheaper it is to collect. Inefficient collection can mean many debts having to be pursued using a variety of more expensive methods including recovery agents, lawyers, etc.
 - ii) The faster a debt is collected the less likely it is to move into a recovery phase. Evidence shows that chasing debts as soon as they are overdue produces better outcomes than leaving debts for longer periods, particularly when further debts are accruing on a periodic basis. This in turn means that the incidence of write-off is reduced.
- 3.3 Currently the performance scrutiny of income collection is through the following methods:-
- i) Locally developed performance measures and other management information including Performance Reports to TMT, Directorate Management Team's and Committees along with regular local monitoring reports;
 - ii) Benchmarking comparisons, for example, the nationally supported Cipfa Debtors Benchmarking Club which compares cost, speed and quality of collection processing;
 - iii) CPA assessment of Financial Standing under the "Use of Resources" key lines of enquiry (KLOE). At level 3 this requires Councils to fully understand the effectiveness of their income collection operations, including the cost of non-recovery. At the highest level (4), Councils must set challenging targets for income collection. The Council is currently at level 2.
 - iv) Best Value Performance Indicators (BVPI's), which currently measure performance on Council Tax, Business Rate and Housing Rent collection and Housing Benefit Overpayment recovery.
- 3.4 To give some context, the level of income collected by the Council is in excess of £300m per annum as detailed in Appendix 1 of the Collection and Recovery Policy.
- 3.5 Many of these debts are collected by small specialist teams based in relevant Directorates with the exception of some Commercial and Agricultural Rents, most of which are collected by external contractors (Cluttons/Smithsgore). Debts are raised and managed using dedicated local Information Systems although in some cases there are links with the corporate Financial Information System ("Authority Financials"), which has an integrated Debtors module.
- 3.6 A significant volume of other debts (called "Sundry Debt") are collected by a small Corporate Debtors team and are maintained via the corporate Financial Information System.

4 Current Performance

- 4.1 Appendix 2 provides an update for the sub-committee on collection performance in 2006/07 of most of the significant types of income collected.
- 4.2 Council Tax collection performance is upper quartile (96.8%) compared with other unitaries as is Business rate collection (98.4%). These areas are expected to improve performance by at least 0.1% per annum.
- 4.3 Housing Rent collection (96.44%) is improving marginally year-on-year but not as fast as anticipated. It is hoped that recent changes to the structure of the team will improve performance, particularly concerning the reduction of arrears.
- 4.4 Housing Benefit overpayment recovery performance is only measured annually at present (BVPI79b) and is a difficult performance measure to obtain accurately with current systems available. This measure takes into account recovery of overpayments occurring since 2001 and current performance is at 30.87% which is lower than 2005/06. However, in-year recovery of overpayments improved from 57.4% in 2005/06 to 65.1% in 2006/07 indicating that it is recovery of older overpayments that is causing most difficulty as might be expected.
- 4.5 Performance on Sundry Debt areas has improved in recent years and was up to 96.5% in 2005/06, however, teething problems with the implementation of the new corporate financial information system have resulted in a temporary worsening of performance in 2006/07.
- 4.6 Collection of fines (PCNs) in relation to on-street parking is lower than other forms of debt. This is principally due to the high level of cancellations that occur for various statutory or legal reasons or as a result of appeal decisions. To assess whether this level of collection versus cancellation is reasonable an attempt to benchmark with other authorities has been undertaken. However, very few authorities structure their parking enforcement operations on the same basis and therefore benchmarking is limited to a small number of comparable authorities with similar operations. This shows that other authorities' collection rates range from 53.6% to 61%. Brighton & Hove's performance would therefore appear to be comparable but further benchmarking is being undertaken. Performance in this area therefore relies not only on good collection and recovery practices, but also on reducing the level of cancelled fines through good enforcement practices. This is expected to improve following the recent revised specification and re-tender of the enforcement contract won by NCP.

5 Improving Income Collection

- 5.1 Where local authority income collection is inefficient (e.g. lower quartile) due to either under-resourcing, lack of payment options, poor processes and/or poor IT systems, or limited collection methods, improving efficiency is relatively straight-forward and therefore cost-effective steps such as the following will improve the position quickly:-
- Making available many different payment methods to debtors including Direct Debits, Internet payment, Standing Orders, pay-points, telephone payment, payment by post, payment by salary deduction, payment at bank or post office, etc.
 - Improving basic processes and ensuring that reminder notices and follow up procedures for overdue debts are automated and efficient;
 - Properly resourcing (staffing) income collection teams;
 - Investing in effective internal or contracted recovery practices for longer term debts (e.g. lawyers, bailiffs, specialist agencies, etc.)
 - Making simple improvements to IT systems and/or management information.
- 5.2 These are basic steps and all but the poorest performing authorities will have already acted on some or all of these measures. However, once income collection performance has reached above-satisfactory levels, it becomes exponentially more difficult to improve performance at the margins. Brighton & Hove is currently in this position and therefore improving performance must be carefully weighed against the resources and costs of bringing about marginal improvements. In particular, where major investment in IT systems is likely to be the only way to significantly improve performance, a much more detailed business case will be required. There are however improvements in processing, joined-up working, and monitoring that could lead to further efficiencies in Brighton & Hove.
- 5.3 To consider the position in Brighton & Hove, a Corporate Debt Management Group (CDMG) has been set up to review best practice across all income collection functions with the aim of improving collection rates; the speed and quality of income collection; management information; and the Council's Use of Resources CPA rating of its Financial Standing (to level 3). The terms of Reference and membership of the CDMG are shown at Appendix 3.
- 5.4 As a starting point, the CDMG has undertaken an Information Audit of income collection to gather data on the following:-
- i) Management reporting of each type of income;
 - ii) Performance measures/indicators for each type of income;

- iii) Benchmarking undertaken for each type of income;
- iv) Income collection and write-off policies;
- v) Problem areas (whether related to systems, processes or the type of debt).

5.5 Having gathered this basic information, the group is now reviewing in detail the collection methods and resources employed in collecting each type of income. The group expects to look at the following areas:-

- Cross-cutting impact of recovery actions – what is the impact on collection of other debts if recovery of one type of debt places the debtor into hardship or insolvency, etc?
- Payment methods – are a wide range of payment methods available for all types of debt? In particular, can Direct Debits be further promoted or utilised to collect debts?
- Recovery practices and processes – can recovery processes be shared or expanded (e.g. Council Tax bailiff service) or should resources be pooled to procure effective internal or external training, legal action, etc?
- Income collection systems – are there significant performance issues with IT systems and what quality of management information can they provide?
- Review of outstanding debts and write-off policy – are debt write-off provisions adequate and reasonable or are there too many long-standing, economically unviable debts still live?

An outline project plan has been drafted to steer the work of the group.

5.6 The group will look at wider issues in the medium term including the following:-

- Spend to save options – i.e. considering recurrent or pump-priming investment in recovery or collection practices to either clear outstanding debts or speed up collection of current debts;
- Reviewing the ICT systems and associated management information – i.e. looking beyond quick fixes, are new systems or significant changes to current systems required in the longer term?
- Structure of income collection services – i.e. is this organised effectively across the Council and making best use of available resources?

5.7 Other initiatives and/or best practice measures that have been or are being reviewed include:

5.7.1 Restructure of Income Collection Services

Most Income collection services have now reviewed their current operations which has led to a number of changes as follows:-

- The management of Council Tax and Housing Benefit services was brought together under a Head of Revenues & Benefits in April 2007. This has paved the way for further joint working of these teams including improved sharing of information on debtors.
- The Corporate Debtors Unit will restructure its services to separate out the management of Personal and Business debt. The latter is generally more straightforward to collect and therefore the specialisation of collection will enable the team to align resources more appropriately.
- The Adult Social Care income team, based in the Housing & City Support Directorate, will be merged with the Corporate Debtors Unit which has more experience of debt recovery processes. The merger will be completed in September 2007.
- Externally managed rent collection was reviewed and it became clear that the contractor lacked debt recovery skills, particularly for older debts and arrears. Some debts and arrears were therefore passed over to the Corporate Debtors Unit to manage, which has improved recovery rates. The contract manager will continue to keep this position under review and where practicable engage the Corporate Debtors Unit in the recovery of debt.
- Additional, time-limited resources have been made available to the Parking Team to improve income collection and a target collection increase of 2% has been set for 2007/08.

5.7.2 Audit Commission Toolkit

Following publication of their study, "Improving Income Collection", the Audit Commission have made available a toolkit on their web site, which contains a series of tests for services to undertake. The tests allow income collection services to compare their operations with best practice authorities. All of the council's income collection services will undertake to use the toolkit to identify an improvement programme for areas that do not match up to best practice. The tests cover areas ranging from cost of collection, payment facilities, Direct Debit campaigns, anti-fraud, organisational structure of income collection services, etc.

5.7.3 Benefits Links

All services continue to promote the take up of DWP benefits wherever possible, particularly as this can increase income for the council. For example, the Adult Social Care income team has appointed an additional officer for this purpose on a "spend-to-save" basis.

5.7.4 Anti-fraud Campaign

An anti-fraud campaign was promoted earlier this year focusing particularly on Single Person Discounts for Council Tax. Posters and letters to individual households have so far been issued and a fraud-line has been set up, while a radio campaign was also launched recently. Overall the campaign has cost approx. £20,000 but within 2 months the campaign had resulted in a reduction of 350 Single Person Discounts saving the council a minimum of £100,000. Further savings are expected as the campaign progresses.

5.7.5 Review of Bailiff and External Legal Support

Just as the structure of income collection teams has been reviewed, there is an opportunity to review the operation of bailiff and legal services in relation to debt recovery.

5.7.6 Audit of Debt Write-off

An internal audit of debt write-off practices, controls and levels was completed in January 2007. The report has been circulated in draft and the recommended management actions are currently being agreed. Services are currently implementing many of the recommendations and are clearing out many old and uneconomic debts.

6 Corporate Debt Collection and Recovery Policy

6.1 Best practice indicates that authorities should have a co-ordinated approach to the management, collection and recovery of their various income types. This ensures that the council takes a holistic view of its income collection activities and clearly communicates how it prioritises debt outstanding and the actions it will take to ensure recovery.

6.2 To ratify and communicate this approach, a draft Corporate Debt Collection and Recovery Policy has been produced based on best practice examples from other local authorities and the Audit Commission. The policy would apply to all income collection services working within Brighton & Hove City Council and will ensure that income collection and debt recovery is managed consistently across all functions and that information is shared for the benefit of overall collection and recovery. The policy's aims and objectives are as follows:-

- To develop a corporate approach towards sharing debtor information across collection teams and managing multiple debts owed to the council.
- To use cost effective and fair collection and recovery practices in the pursuance of all debts owed to the council, ensuring that those with the means to pay do pay.

- To ensure a professional, consistent and timely approach to recovery action across all of the council's functions.
 - To consider fully the debtors circumstances and ability to pay and so distinguish between the debtor who won't pay and the debtor who genuinely can't pay.
 - To improve the levels of income collected by the Authority and reduce levels of arrears.
 - To ensure that debts are managed in accordance with legislative provisions and best practice.
 - To treat individuals consistently and fairly regardless of age, sex, gender, disability and sexual orientation and to ensure that individual's rights under Data Protection and Human Rights legislation are protected.
- 6.3 A programme of awareness training will be developed to ensure that all teams understand the aims of the policy and to ensure that the separate collection teams move toward an improved culture of corporate collaboration for collecting and recovering income. The policy will be posted to the council's web site and shared with all key stakeholders.

7 Consultation

- 7.1 The council's Audit Panel has reviewed the aims and objectives of the proposed Debt Collection and Recovery Policy and have received regular updates on debt collection and recovery performance and the work of the CDMG.

Appendix 1

Meeting/Date	Finance Sub-committee 21 September 2007
Report of	Director of Finance & Resources
Subject	Debt Collection and Recovery
Wards affected	All

Financial implications

Income collection and debt recovery performance can directly impact on the council's financial position. Any improvement of in-year collection performance can improve cash-flow and therefore result in interest savings. Similarly, any improvement in debt recovery (i.e. reducing debt outstanding or arrears) may reduce the amount of debt the council ultimately writes off to its revenue account.

Finance Officer consulted: Nigel Manvell, Date: 30th August 2007

Legal implications

All types of income to be collected or recovered by the council are subject to statutory rules and time limits for recovery. The Corporate Debt Management Group and income collection services must have regard to these when considering changes to collection or recovery processes.

Legal Officer consulted: John Heys, Date 7 September 2007

<h3>Corporate/Citywide implications</h3> <p>The council's financial position impacts on levels of council tax and service levels and therefore has citywide implications. Income collection is an important element of the council's finances.</p>	<h3>Risk assessment</h3> <p>A risk assessment is undertaken in relation to the management of individual budgets including income targets.</p>
<h3>Sustainability implications</h3> <p>There are no direct sustainability implications arising from this report. However, it is believed that the reputation of the council's financial control framework and its ability to demonstrate sound budgetary control could have an impact on the willingness of other funding partners to invest in and with the council. This could affect the level of inward investment in respect of projects that contribute towards sustainability.</p>	<h3>Equalities implications</h3> <p>There are no direct equalities implications arising from this report, although poor income collection performance and associated loss of revenues may reduce opportunities or access to services and employment for communities of interest. As previously stated, the council's financial standing could affect opportunities for investment and partnership working, which could be advantageous to particular areas or groups. Debt collection and recovery policies need to be mindful of other policies in relation to anti-poverty and vulnerable people.</p>

Implications for the prevention of crime and disorder

There are no direct prevention of crime and disorder implications arising from this report, although reductions in expenditure or service levels may impact on these issues.

Background papers

Detailed working paper files are held by Financial Services.

Contact Officers

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Appendix 2

Performance Indicator	Income Type: Description	2004-05	2005-06	Unitary Average 2005-06	2006-07
BVPI 9	Council Tax: The % of domestic Council Tax received as a % of the total Council Tax expected to be received by the council	96.0%	96.5%	96.4%	96.8%
BVPI 10	Business Rates: The % of Business Rates collected as a % of the total Business Rates expected to be received by the council	98.4%	98.4%	98.5%	98.4%
BVPI 66a	Housing Rents: The Housing Rent collected is the total amount of rent collected during the year, less any payments of arrears for earlier years from former tenants	96.5%	96.35%	97.6%	96.44%
BVPI 79b	HB Overpayments: This indicator measures the value of Housing Benefit overpayments recovered during the period being reported on as a percentage of the value of recoverable overpayments identified by the local authority on or after 1st April 2000	49.4%	35.2%	34.4%	30.9%
Contract Specification	Commercial Rents: The percentage of Commercial Rents collected within 30 days of being raised	n/a	n/a	n/a	85.0%
Local	Sundry Debts: The amount of income collected as a percentage of Sundry Debts raised	96.7%	97.5%	n/a	85.5% *
Local	Adult Social Care Fees & Charges: The	94.0%	90.5%	n/a	*

	amount of income collected as a percentage of Adult Social Care Debts raised				
Local	Parking Fines	61.9%	60.6%	n/a	59.0%

* The implementation of a new Corporate Financial Information System resulted in a temporary worsening of collection performance during the latter stages of 2006/07. Debt collection and recovery is now functioning as normal. Adult Social Care is now included in Sundry Debts.

Corporate Debt Management Group

Terms of Reference

1. Review debt management and make recommendations to ensure that the Council can meet the minimum requirements to achieve a 3 score for Use of Resources under CPA.
2. Develop and standardise, where possible, corporate monitoring information on debt collection through the financial scorecard and other appropriate reporting tools.
3. Review monitoring information and performance indicators to ensure that the Council is able to evaluate the effectiveness of debt recovery actions, associated costs and the cost of not recovering debt properly.
4. Monitor the effectiveness of debt collection and agree actions required to improve performance.
5. Share best practice across services, including training and recruitment considerations, promoting both internal and external benchmarking.
6. Develop, where appropriate, greater consistency and a holistic approach to debt collection, recovery and write off arrangements across the Council.
7. Propose "invest to save" actions where appropriate to improve debt collection.

The group would need to pull in relevant expertise from finance teams and ICT as needed.