

Subject:	Financial Inclusion – Debt Collection and Recovery Policy		
Date of Meeting:	17 October 2013		
Report of:	Executive Director of Finance & Resources		
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Ward(s) affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 The council collects and recovers well over £300 million of income including Council Tax, Business Rates, fees and charges for services, housing and property rents, licenses, permits and fines. The prompt and efficient collection and recovery of income is therefore critical to the financial stability of the council and its ability to resource and maintain services on behalf of citizens.
- 1.2 Managing the collection and recovery of income is complex, is often surrounded by legislation, and deals with a wide variety of individuals and businesses with very differing financial and/or personal circumstances. While external collection agencies and factoring firms can take a robust approach to recovery, this is not appropriate for the council when dealing with vulnerable people or groups. Inappropriate recovery actions could cause hardship or exclusion that would not only be contrary to the council's priorities but could lead to even greater long term costs for the council. To assure members, the proposed policy sets out the approach to be adopted by collection units for the recovery and collection of income.
- 1.3 The proposed policy may require further updating following monitoring of the impact of welfare reforms and the outcome of piloting in specific areas.

2. RECOMMENDATIONS:

- 2.1 That the Policy & Resources Committee approves the Corporate Debt Collection & Recovery Policy at Appendix 1.
- 2.2 That the Policy & Resources Committee approves the proposed Action Plan at Appendix 2.
- 2.3 That the Policy & Resources Committee note that the policy and its effectiveness will be the subject of ongoing review and any necessary amendments reported back to the committee for consideration.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 For any organisation collecting multiple sources of income, potentially from the same person or business, good practice demands a co-ordinated approach to the management, collection and recovery of debts. For local authorities, this is often made complex by the different legislative requirements covering the collection and recovery of various types of income but this should not stop sound principles being applied wherever possible.
- 3.2 The council recognises that people and businesses do, from time to time, get into financial difficulty and may have difficulty paying all of their debts, including those owing to the council, even where these have been means-tested. Where this is the case, the council aims to deal with outstanding debt fairly and sensitively, having regard to financial inclusion and ensuring that people and businesses can obtain the right advice to help them manage.
- 3.3 The approach to collection and recovery was encapsulated in a 'Corporate Debt Collection & Recovery Policy' which was first approved by members in September 2007. Although this policy has been revised from time to time, recent changes across local government mean it is now outmoded and requires a major review. The aim of the review is to ensure that it aligns with the recently approved Financial Inclusion Strategy, recognises changing economic conditions for individuals and businesses, reflects changes in practice across the collection and recovery teams, particularly in relation to Welfare Reforms, and supports the council's current Corporate Plan Priorities.
- 3.4 The collection and recovery of income links closely to Financial Inclusion and all collection teams are acutely aware of the need to signpost individuals to good quality financial advice to avoid debt problems becoming severe. The policy has therefore focused on individuals and businesses who get into difficulty and how the council can help them to manage the situation - including signposting to appropriate advice - while balancing this with its duty to collect. To this end, resources were identified through the budget setting processes for both the Housing Revenue Account and the council's General Fund to support financial inclusion work and advice agencies.
- 3.5 Although the council has previously approved a policy in respect of income collection and recovery, it should be noted that this is not a key policy document and has no force in law. It is more akin to a 'Practice Statement' and sets out the approach that the council aims and expects to adopt. Some aspects of the policy are also aspirational and depend on Information Technology enhancements and data sharing capabilities in future to enable full implementation.
- 3.6 The review of the policy needs to take into account the following considerations:
 - i) Extant collection and/or recovery legislation;
 - ii) The council's Financial Inclusion Strategy and commissioning approach;
 - iii) The council's Corporate Plan Priorities, in particular, 'tackling inequality' and 'creating a more sustainable city';

- iv) Data protection and information security, particularly when sharing information about multiple debts across collection teams;
- v) Potential impacts on equality groups and vulnerable groups;
- vi) Potential impacts on income collection and the council's financial position.

3.7 Taking these factors into account, a lead group of officers has reviewed the policy's aims and objectives and considers that with some minor revisions, they remain relevant. The policy's broad aims and objectives should be as follows:-

- To ensure a professional, consistent and timely approach to recovery action across all of the council's income functions.
- To develop a council-wide approach towards sharing debtor information across collection teams and managing multiple debts owed to the council, whether business or personal debt.
- To use prompt, 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.
- Where their ability to pay is compromised, to consider debtors' circumstances on a case-by-case basis, taking into account all debts where possible, and providing appropriate signposting, support and advice to promote financial inclusion.
- To treat individuals consistently and fairly in accordance with equality legislation and ensure that individual's rights under Data Protection and Human Rights legislation are protected.
- Through good practice and promoting financial inclusion, to improve the levels of income collected by the council and reduce levels of arrears (debt).

3.8 In simple terms, the thrust of the proposed policy is as follows:

- i) To task the collection teams to work effectively together in dealing with collection and recovery so that they share good practice, and share data and information wherever appropriate. The core principle is that the teams work together to help people and businesses who get into arrears by taking into account *all* of their debts rather than acting on them in isolation.
- ii) In doing so, to be mindful of financial inclusion, equality of treatment and the relevant legal requirements for the debts involved.
- iii) For *individuals* who notify us of difficulties, as far as practicable, to help to avoid the debtor's financial failure, which can create potentially greater long term costs for the council.
- iv) For *businesses* who notify us of difficulties, to help them to avoid failure or insolvency wherever possible, particularly where there may otherwise be a significant economic impact for the council and/or the city.
- v) Where financial or personal difficulties are not apparent or the debtor refuses to communicate with the council, to pursue recovery as normal.

Generally, the actions that would be taken when a debtor notifies us of difficulties would include:

- Suspending normal recovery action and discussing with them alternative payment arrangements;
- Signposting debtors to relevant financial inclusion or money advice services;
- Where appropriate, signposting personal debtors to relevant discretionary payments or funds for which they may qualify.

3.9 There have been very significant changes in both the economic situation and in the welfare system that are having a considerable impact on individuals and businesses. The collection teams are very responsive to such changes and have always adjusted their services and responses to match prevailing conditions. Not to do so would result in significantly greater debtor and business failure and greater economic cost to the council and the city. However, the extent of recent changes and their complexity require a more fundamental review of the response across the council.

3.10 The key difficulty is that the full impact of changing conditions and welfare reforms is not yet understood and clear patterns are yet to emerge. There are also further changes to come. Similarly to the Financial Inclusion Strategy, it is therefore proposed to undertake a series of planned activities to further inform the policy and revise the response as needed over the coming financial year.

3.11 Planned activities will cover the following broad areas:

- Working alongside the Financial Inclusion Strategy to review and inform associated advice and financial services;
- Engaging expert advisers to assist in identifying practice improvements in relation to collection and recovery;
- Piloting approaches for managing multiple debts across collection teams and capturing and analysing associated data;
- Developing improved information and analysis of debtors to inform the Equality Impact Assessment and further improve the service response and approach;
- Reviewing the legal position in relation to 'integrated recovery', data sharing and information security;
- Reviewing best practice across local authorities for integrating the collection and recovery of different types of debt;
- Reviewing payment methods and availability to ensure that a wide range of suitable payment methods are available for all types of debt.

The proposed Action Plan is at Appendix 2.

3.12 In relation to the piloting approach referred to above, a joint working pilot between Housing and Council Tax (Revenues & Benefits Service) has already

commenced and although in the early stages is proving to be very beneficial. The synopsis of this pilot is as follows:

- Housing and Council Tax staff discuss the best ways of progressing individual cases, particularly those where tenants are affected by the under-occupancy charge and council tax contribution for the first time.
- Important information is exchanged and tenants are reassured through contact with officers who are aware of their overall situation and able to take joint action to assist the tenant. Where appropriate, tenants can be offered the chance to renegotiate payments and recovery action can be put on hold to allow the tenant to receive specialist help and guidance. In some instances, tenants may also be able to qualify for a Discretionary Housing Payment or benefit from advice from Financial Inclusion Officers, a Housing Money Adviser or the Money Advice Community Service.
- Staff within Housing and Council Tax are gaining knowledge and expertise of each other's recovery processes and are already seeing the benefits of joint working and taking a more holistic and co-operative approach to income collection. In the longer term the project should lead to fewer summons, possessions, evictions¹, and legal costs and means that tenants will have more confidence in the officers who contact them to discuss monies owed.

3.13 The importance of the link of this policy to financial inclusion work was highlighted in the Financial Inclusion Strategy report approved by Policy & Resources Committee on 21 March 2013. This set out a business case for investment in financial inclusion and gave examples of the positive benefits of avoiding 'financial exclusion' as described in the Table below.

Potential Cost of Financial Exclusion	Potential Benefit of Financial Inclusion
Arrears recovery	A reduction in the level of rent arrears and sustained income generation and cash flow for the council. A reduction in the number of bailiff visits, court and other actions as a result of rent or council tax arrears. A reduction in the number of failed tenancy rates, abandoned properties and housing void costs.
Legal costs and challenges	A reduction in the number of court cases and therefore costs associated with this. Reduced demand on 'high end' expensive statutory services. Increased resilience leading to reduction in demand for support services.
Transactional	Increase in use of the most efficient collection methods e.g.

¹ Note that at its meeting on the 8th May 2013 and in relation to the risk of evictions caused by the Housing Benefit Social Rented Sector Size Criteria, the Housing Committee approved: "that for a transitional period until 1st April 2014, where (i) all other avenues have been explored, and (ii) transfer is the only option but there are no suitable properties to transfer to, and (iii) where it is possible to clearly identify that arrears are solely due to the under-occupancy penalty; officers will use all means other than evictions and bailiffs to recover rent due."

costs	direct debit and other automated payments.
Rising debt levels	Access to basic banking facilities and improved skills and knowledge in relation to money management.
Costs of temporary accommodation	A reduction in the number of people presenting as homeless.

The approach outlined in the proposed debt collection and recovery policy can clearly support and enhance these potential benefits.

3.14 In summary, the main changes to the previous 2007 policy are as follows:

- Stronger emphasis and links to the council’s Corporate Plan priorities;
- Clearer links to the Financial Inclusion approach and the recently approved Financial Inclusion Strategy;
- A clearer distinction between the treatment of ‘personal debt’ and ‘business debt’;
- A commitment to apply the council’s ‘Customer Promise’ across debt collection and recovery work;
- Greater clarity about when the council considers that a debtor is not co-operating and therefore where recovery action will need to continue;
- Technical updating for legal changes and changing communication channels (e.g. increasing use of Text/SMS messaging).

4. COMMUNITY ENGAGEMENT AND CONSULTATION

4.1 A Corporate Debt Management Group comprising all the major collection units across the council has worked together to review policy and practice and make recommendations. The group has links to the Financial Inclusion Board and has taken soundings from the board on development of the policy including the planned engagement of expert advisers to help with the ongoing review of practice.

4.2 There is also significant feedback and research available from the work undertaken to develop the Housing Management Financial Inclusion Strategy which consulted with the ASSG (Advice Services Strategy Group) and other stakeholders.

4.3 During the ongoing review process, we will continue to consult with and take feedback from relevant stakeholders, groups, individuals and businesses to inform both policy and practice developments.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

5.1 As stated in the report summary, collection and recovery of income is vital to the council’s financial stability given that hundreds of millions of pounds are collected. Two of the policy’s key aims are to: improve overall collection through

helping people and businesses to manage debt more effectively, and; to collect income promptly, efficiently and fairly. These aims ensure that the policy continues to focus on supporting improved collection performance, alongside other objectives, and will not, of itself, jeopardise the council's financial position.

- 5.2 The associated Action Plan includes potential engagement of expert advisers, Toynbee Hall. This is not expected to exceed £5,000 and will be funded from the resources identified in the Financial Inclusion Strategy report to Policy & Resources Committee in March 2013, namely through: "using both the remaining 2011 financial inclusion budget allocation and the additional financial inclusion budget allocation of £300,000 approved through the 2013/14 budget process".

Finance Officer Consulted: Michelle Herrington Date: 07/06/13

Legal Implications:

- 5.3 All types of income to be collected or recovered by the council are subject to statutory rules and time limits for recovery which the collection teams must have regard to. As stated in the report, the proposed policy sets out aims and expectations with the intention of ensuring a consistent approach to collection – it does not replace the legislative requirements. Each case must be looked at on its own individual merits and any relevant circumstances.

Lawyer Consulted: Elizabeth Culbert Date: 11/06/13

Equalities Implications:

- 5.4 The availability of equality data for debtors is generally very limited. Collection units are required to collect and recover debts that are often raised by other service units. For example, the Corporate Debt Management Team collects Home Care Charges from clients on behalf of the Adult Social Care service. The team will usually only have information about name, address, service provided and amount due. They will not have personal information, including equality data, about the client which will be held elsewhere in the social care system (CareFirst). This is common, and the various systems used to manage debts, rents, etc. are often separate from the client information aspects of the system. Similarly, other systems or processes simply do not capture or hold equality information, for example, council tax.
- 5.5 Developing equality information about debtors will therefore be complex and will require joining up data from different systems and/or within systems. The Corporate Debt Management Group will therefore work on developing and gathering this information as far as practicable. However, for some groups e.g. Council Tax payers, this information will not be available and it may be necessary to use proxy data (e.g. census information) to help identify potential equality impacts. A full equality impact assessment cannot therefore be undertaken at present but will be developed as part of the ongoing review and implementation of the policy. An initial screening document is provided at Appendix 3.

Sustainability Implications:

- 5.6 The approach to business debt within the policy (and practice) enhances the link to the council's Corporate Plan Priority of 'creating a more sustainable city'. The policy will ensure that wider factors will be considered in collecting and recovering debt, in particular, helping businesses to manage debt and thereby avoiding business failures that could have an economic impact for the city or an economic cost to the council.

Crime & Disorder Implications:

- 5.7 There are no crime and disorder implications arising from the report.

Risk and Opportunity Management Implications:

- 5.8 Key risks concern the sharing of data across collection units. This will be closely monitored and relevant data protection and information security requirements will be determined and tested before any change to current procedures is implemented.
- 5.9 A collection and recovery policy that introduces overly complex processes and/or decision-making, risks damaging collection performance. The policy approach therefore aims to keep processes simple and effective and minimise the risk of impacting on performance and consequently the resources available to the council.

Public Health Implications:

- 5.10 There are no direct public health implications arising from the report. However, financial difficulties are a cause of stress and distress for individuals and therefore the focus on a financial inclusion approach may be a contributor to maintained or improved public health.

Corporate / Citywide Implications:

- 5.11 The collection of income is important to enable the council to resource and provide essential services to citizens across the city. The policy aims to maintain and improve collection performance while taking a balanced approach.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 6.1 The authority is not required to have a collection and recovery policy but not to do so could mean that collection units take different and possibly counter-productive approaches to collection and recovery. Good practice requires that a corporate approach is adopted and endorsed by members.

7. REASONS FOR REPORT RECOMMENDATIONS

- 7.1 Effective Income collection and recovery is critical to the council's financial resilience and enables it to resource and provide essential services. However, members will want to know that the approach and ethics that are applied when collecting income, particularly in relation to vulnerable groups and or those in

financial difficulty, supports the council's Corporate Plan Priorities. The approach has been developed in the proposed policy statement that will be used by the income collection teams across the council and which requires the committee's approval.

SUPPORTING DOCUMENTATION

Appendices:

1. Corporate Debt Collection & Recovery Policy
2. Action Plan
3. Equality Impact Initial Screening Document

Documents in Members' Rooms

None

Background Documents

None

