
Report To:	Policy & Resources Committee	Date:	18th September 2012
Report By:	Chief Financial Officer	Report No:	FIN/66/12/AP/FB
Contact Officer:	Fiona Borthwick	Contact No:	01475 712904
Subject:	Debt Recovery Performance 2011/12		

1.0 PURPOSE

- 1.1 The purpose of this report is to advise Committee of the Council's Debt Recovery performance during 2011/12 and of future plans. The Financial Regulations stipulate that a report on Debt Recovery performance for the preceding financial year be submitted annually to the Policy & Resources Committee.

2.0 SUMMARY

- 2.1 The current contract with the Council's Debt Partners Walker Love and Co commenced in April 2008. The current contract was due to expire on 31 March 2012, however approval was granted by Policy and Resources Committee to extend the contract until 30 September.
- 2.2 Following a tendering exercise, Alex M Adamson LLP have been appointed as the Council's Debt Management Partner. In line with the Council's Standing Orders, approval to appoint was approved by Policy and Resources Committee on 14 August 2012. The contract takes effect from 01 October 2012 and runs initially for 18 months with 3 possible 1 year extensions. It is expected that the change of contractor will initially have a negative impact on collection levels which is expected to be reflected in the year end position for 2012/13.
- 2.3 In 2011/12 the main focus of debt recovery continued to be Council Tax although resources were also directed towards improving collection levels for Non Domestic Rates, Commercial Rents, Sundry Debts and Housing Benefit Overpayments. The new contract with Alex M Adamson LLP is only for Council Tax and Non Domestic Rates. The In-house Debt Recovery team will pursue Sundry Debt (including Commercial Rents) and Housing Benefit overpayments. If further action or diligence is required for these categories of debt, ad hoc agreements will be made with Alex M Adamson LLP or another party. Community Charge Debts were written off as part of the 2011/12 closure and are therefore not included in the new contract.
- 2.4 Collection levels for 2011/12 in respect of accounts passed to Walker Love decreased marginally by £29,000. A detailed breakdown of the categories of debt can be seen at appendix 2. In Year collections from the Council's Debt Recovery Team increased marginally by £29,000.
- 2.5 Despite another challenging year due to the ongoing effect of the Bankruptcy and Diligence Act and the continuing difficulties due to the economic climate the Council Tax In year Collection level continued its upward trend and again reached its highest ever level of 94.2% which is 0.2% higher than 2010/11.
- 2.6 Direct Debit uptake continued to rise in 2011/12 with 72.6% of In year receipts being received by this method of payment.
- 2.7 Collection levels for Non Domestic Rates reached 96.24%, an increase of 0.61% from 2010/11. Sundry Debt collections from the Debt Partner reduced significantly due to early intervention work being undertaken by the Debt Recovery Team. The pro-active work undertaken by the team resulted in outstanding Sundry Debt greater than 90 days old reducing from 20.5% to 11.26% in 2011/12. Full details can be seen at Appendices 1 and 2.

3.0 RECOMMENDATIONS

- 3.1 That the Committee note the Council's good performance in the area of Debt Recovery in 2011/12.
- 3.2 That Committee note that the Council will have a new Debt Partner effective from 01 October 2012 and that it is expected that this change will have a short term effect on collection levels.

Alan Puckrin
Chief Financial Officer

4.0 PERFORMANCE FOR 2011/12 – DEBT PARTNERSHIP

- 4.1 The current contract with the Council's Debt Partners Walker Love and Co commenced on 01 April 2008. The current contract initially was due to expire on 31 March 2012 however due to uncertainty over the future of Shared Services and also to try and mitigate the threat of a legal challenge which other Councils had been exposed to when re-tendering, the contract was extended to 30th September 2012.
- 4.2 The Revenues Management Team met regularly with the Senior Partners of Walker Love and Co as well as regular communications by telephone and email to ensure that there were clear lines of responsibility and that income maximisation as well as customer service aspects are as clear and productive as possible. Operational meetings and discussions also took place at Team Leader level. Detailed statistics were recorded, analysed and discussed by both parties.
- 4.3 As reported to committee on the last 2 annual Debt Management Performance reports, the Bankruptcy and Diligence Act (BAD Act) continues to have an effect on collection. This was further affected with an uplift in Sheriff Officer fees with effect from January 2012, resulting in a charge for payment fee increasing from £48.80 to £74.60. The process of serving a charge for payment under the scheme coupled with the fact that the charge has to be recovered before the Council recovers its debt, in effect adds in the region of three months onto the process before income reaches the Council.
- 4.4 Despite the difficulties with the economic climate and the effects of the BAD Act, Inverclyde Council's In year collection level increased by 0.20% to 94.2%. This is the Council's best ever In Year collection. Twelve Councils in Scotland had a drop in In year collection levels for 2011/12.
- 4.5 Prior year collection continues to become more difficult with the passage of time and this will be an area that is discussed in detail with the new Debt Partners with a view to maximising recovery in this area. The year 2007/08 is particularly poor and can be attributed to the timing of the last change of Debt Partner.
- 4.6 In 2011/12 the Debt Management Partnership initiated sequestration proceedings in 12 cases, 3 of which progressed to court resulting in these debtors being declared bankrupt. To date payments of £46,517 have been received in respect of the other 9 cases and some of the cases have ongoing arrangements. In addition to this, Walker Love issued 76 pre sequestration letters; resulting in payment of £25,000 to date for these cases.
- 4.7 Cases identified for sequestration are carefully selected to ensure that emphasis continues to be on those debtors who through the use of technology such as Experian Citizen view show that they have clear equity on their homes. The numbers of sequestration cases fell by 1 and reflects the fact that in the current economic climate the market value of property has dropped meaning there is less equity available.
- 4.8 Direct Debit uptake has risen again in 2011/12 from 71% of in year receipts in 2010/11 to 72.6% in 2011/12. Following the success of a campaign in 2011, a further poster and leaflet campaign was carried out early in 2012 which helped towards yet another increase in this method of payment. The Council offers 5 different dates in the month as well as offering weekly payments by direct debit along with the option to pay over 12 months in certain circumstances. As well as being customer friendly this method of payment is by far the cheapest for the Council.
- 4.9 Officers are aware of the social and financial inclusion issues in Inverclyde and work closely with Money Matters with the view to facilitate as many arrangements with debtors before it reaches the stage that diligence is applied. Benefit take up is also encouraged as much as possible to ensure that entitlement is maximised as far as possible. Revenues staff have received an overview of Council Tax Benefit to increase their understanding of these matters.
- 4.10 The Debt Recovery Team based in the Municipal Buildings have increased their in year

collection figure by £29,000 compared to 2010/11 performance. In the current climate this is a commendable and along with the Revenues Team this achievement contributed to the rise in collections by processing exemptions, discounts etc effectively and managing the billing process well.

- 4.11 Following the success of a similar exercise in 2010/11, the In House Debt Recovery team completed an initiative following the first Summary Warrant petition. They identified debtors who have previously had a good payment history and issued them with a letter offering them the opportunity to make an arrangement to settle their Council tax in monthly instalments by Direct Debit, thus avoiding any necessary correspondence or fees being recovered in the recovery of the debt. This also negates the requirement for the Council to pay commission costs.
- 4.12 The exercise identified 109 debtors with a good payment history and the Debt Recovery Team contacted these individuals by letter or telephone and managed to set up 44 direct debit arrangements. Payments of £30,834.83 were received against these accounts during the exercise and arrangements were made to the value of £35,000. Similar exercises have been undertaken on subsequent warrants and there are now 537 arrangements in place with a debt value of £308,928.00.
- 4.13 A statement of the Debt Partnership performance is set out in Appendix 1 and Appendix 2. The Debt Partner collected approximately £1.8 million excluding direct payments to the Council in 2011/12 against a target of £1.9 million. Overall collection including direct payments to the Council was £2.1 million against a collection figure of £2.13 million in 2010/11.
- 4.14 In 2011/12 the collection level for Community Charge was £17,650 compared to £29,000 in 2010/11. This income was largely received due to the fact that any outstanding credits that were being held on the system were checked against any historical debt owed to the Council including Community Charge. Any credits were offset against the debt before the refund was processed. This practice is unsustainable due to the passage of time and as such Community Charge Debts were written off as part of the 2011/12 accounts closure. Future income from Community Charge will be limited to monies that come in as part of existing arrangements.

5.0 OVERALL POSITION OF COUNCIL DEBT AS AT 31 MARCH 2012

- 5.1 The gross debt as at 31 March 2011 is £20.580 million as shown in Appendix 3. There is a bad debt provision of £16.211 million, leaving net collectable debt of £4.369 million. This is an increase of £946,000, since 2010/11 largely due to an increase in short term sundry debts arising from the timing of issuing Debtors accounts at the Year End.
- 5.2 Appendix 4 provides more detail behind the figures and highlights new debts raised, payments received and debts written off. All Bad Debt provisions have been calculated in accordance with Council policies.
- 5.3 It should be noted that the above figures reconcile to the 2011/12 Accounts.

6.0 PLANS FOR 2012/13

- 6.1 Following a tendering exercise, Alex M Adamson LLP have been appointed as the Council's Debt Management Partner. In line with the Council's Standing Orders, approval to appoint was approved by Policy and Resources Committee on 14 August 2012. The contract takes effect from 01 October 2012 and runs initially for 18 months with 3 possible 1 year extensions. It is expected that the change of contractor will initially have a negative impact on collection levels for all year's debt which are unlikely to be reflected in the year end position for 2012/13.

- 6.2 As soon as the 10 day Standstill period is completed, Revenues Management will meet with Alex M Adamson LLP to agree the new contract which as well as Debt Recovery procedures will also establish a rolling programme of write offs for uncollectable Council Tax debt.
- 6.3 The majority of the recovery activity for 2011/12 concentrated on Council Tax arrears although Walker Love also continued to collect for Sundry Debt, Non Domestic Rates and Housing Benefit Recoveries The new contract with Alex M Adamson LLP is only for Council Tax and Non Domestic Rates. The In-house Debt Recovery team will pursue Sundry Debt (including Commercial Rents) and Housing Benefit overpayments. If further action or diligence is required for these categories of debt, ad hoc agreements will be made with Alex M Adamson LLP or a third party company who can demonstrate initiative and low cost. Outstanding Community Charge Debts were written off as part of the 2011/12 closure and are therefore not included in the new contract.
- 6.4 The Council's Revenues Management and Debt Recovery Team together with the Councils new Debt Management Partner will continue to pursue the special initiatives that are in place along with conventional recovery methods to ensure that resources are appropriately directed to specific areas of debt ensuring income maximisation.
- 6.5 The targets for Council Tax collection for 2012/13 will be set with Alex M Adamson LLP as soon as possible after the contract has been formally awarded. In line with previous years, targets will be challenging but at a level that both parties believe to be achievable.

7.0 IMPLICATIONS

- 7.1 Financial – The Debt Partner's performance is critical for the recovery of debt for the Council therefore it is encouraging to see that despite another difficult year due to the economic climate, the Council has yet again achieved its best ever In Year collection. Commission rates charged under the new contract are projected to deliver a £45,000 saving in Commission. This saving however will only provide real value to the Council if collection levels can be maintained.
- 7.2 Legal – None
- 7.3 Human Resources – None

8.0 CONSULTATION – None

9.0 EQUALITIES

- 9.1 Debt Recovery Processes are designed to achieve adherence to the Equalities agenda by ensuring close liaison between Debt recovery officers and the Benefits section. In addition by providing a wide range of payment methods and choice of payment dates this makes it easier for everyone to make payments to the Council.

10.0 BACKGROUND PAPERS – None

ANALYSIS OF DEBT PARTNER PERFORMANCE 2011/12

Appendix 1

Council Tax

Financial Year	Combined
	000's
1993/94	2
1994/95	4
1995/96	6
1996/97	8
1997/98	15
1998/99	14
1999/00	23
2000/01	30
2001/02	38
2002/03	27
2003/04	29
2004/05	36
2005/06	31
2006/07	37
2007/08	69
2008/09	94
2009/10	153
2010/11	470
2011/12	1016
Total	2102

Non Domestic Rates

Financial Year	Payments Received
	000's
1993/94	0
1994/95	0
1995/96	0
1996/97	0
1997/98	0
1998/99	0
1999/00	0
2000/01	0
2001/02	0
2002/03	2
2003/04	3
2004/05	4
2005/06	9
2006/07	6
2007/08	26
2008/09	18
2009/10	71
2010/11	107
2011/12	157
Total	403

Community Charge

Financial Year	Payments Received
	000's
1989/90	0
1990/91	0
1991/92	0
1992/93	5
Other Income - All Yrs	13
Total	18

Other Debts

Type of Debt	Payments Received
	000's
Sundry	37
Housing Benefits	13
Ind Rent	10
Total	60

Appendix 2

**Debt Recovery Partnership
Performance Comparison
2010/11 & 2011/12**

	2010/11 £000	2011/12 £000	Difference £000	%
Council Tax	2131	2102	-29	-1.36%
Non Domestic Rates	330	403	73	22.12%
Community Charge	29	18	-11	-38%
Sundry Debt	267	37	-230	-86.14%
Housing Benefit	15	13	-2	-13.33%
Ind & Commercial Rent	37	10	-27	-72.97%
Total	2809	2583	-226	-8.05%

Appendix 3

	Position 31/03/2012 £'000	Position 31/03/2011 £'000	Movement £'000
<u>Council Tax</u>			
Gross Debt	15,463	14,982	481
Less: Bad Debt Provision	<u>13,296</u>	<u>12,826</u>	<u>470</u>
Net Debt	<u>2,167</u>	<u>2,156</u>	<u>11</u>
<u>Community Charge</u>			
Gross Debt	0	6,804	(6,804)
Less: Bad Debt Provision	<u>0</u>	<u>6,804</u>	<u>(6,804)</u>
Net Debt	<u>0</u>	<u>0</u>	<u>0</u>
<u>Sundry Debt</u>			
Gross Debt	2,060	1,124	936
Less: Bad Debt Provision	<u>197</u>	<u>288</u>	<u>(91)</u>
Net Debt	<u>1,863</u>	<u>836</u>	<u>1,027</u>
<u>Industrial & Commercial Rent</u>			
Gross Debt	154	242	(88)
Less: Bad Debt Provision	<u>48</u>	<u>112</u>	<u>(64)</u>
Net Debt	<u>106</u>	<u>130</u>	<u>(24)</u>
<u>Statutory Additions</u>			
Gross Debt	2,670	2,546	124
Less: Bad Debt Provision	<u>2,670</u>	<u>2,546</u>	<u>124</u>
Net Debt	<u>0</u>	<u>0</u>	<u>0</u>
<u>Long Term Debtors</u>			
Gross Debt	233	283	(50)
Less: Bad Debt Provision	<u>0</u>	<u>0</u>	<u>0</u>
Net Debt	<u>233</u>	<u>283</u>	<u>(50)</u>
<u>Overall Totals</u>			
Gross Debt	20,580	25,981	(5,401)
Less: Bad Debt Provision	<u>16,211</u>	<u>22,576</u>	<u>(6,365)</u>
Net Debt	<u>4,369</u>	<u>3,405</u>	<u>964</u>

2011/12 Debtor Movements**Appendix 4**

	Opening Position £'000	Additions £'000	Payments/ Reliefs £'000	Write-Offs £'000	Closing Position £'000
<u>Council Tax</u>					
Gross Debt	14,982	33,894	(33,114)	(299)	15,463
Less: Bad Debt Provision	12,826	769		(299)	13,296
Net Debt	<u>2,156</u>	<u>33,125</u>	<u>(33,114)</u>	<u>0</u>	<u>2,167</u>
<u>Community Charge</u>					
Gross Debt	6,804		(18)	(6,786)	0
Less: Bad Debt Provision	6,804		(18)	(6,786)	0
Net Debt	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Sundry Debt</u>					
Gross Debt	1,124	8,820	(7,751)	(133)	2,060
Less: Bad Debt Provision	288	42		(133)	197
Net Debt	<u>836</u>	<u>8,778</u>	<u>(7,751)</u>	<u>0</u>	<u>1,863</u>
<u>Industrial & Commercial Rent</u>					
Gross Debt	242	668	(754)	(2)	154
Less: Bad Debt Provision	112		(62)	(2)	48
Net Debt	<u>130</u>	<u>668</u>	<u>(692)</u>	<u>0</u>	<u>106</u>
<u>Statutory Additions</u>					
Gross Debt	2,546	394	(270)		2,670
Less: Bad Debt Provision	2,546	394	(270)		2,670
Net Debt	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Long Term Debtors</u>					
Gross Debt	283	26	(76)		233
Less: Bad Debt Provision	0				0
Net Debt	<u>283</u>	<u>26</u>	<u>(76)</u>	<u>0</u>	<u>233</u>
<u>Overall Totals</u>					
Gross Debt	25,981	43,802	(41,983)	(7,220)	20,580
Less: Bad Debt Provision	22,576	1,205	(350)	(7,220)	16,211
Net Debt	<u>3,405</u>	<u>42,597</u>	<u>(41,633)</u>	<u>0</u>	<u>4,369</u>