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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>24<sup>th</sup> September 2013</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/64/13/AP/FB</b>
<b>Contact Officer:</b>	<b>Fiona Borthwick</b>	<b>Contact No:</b>	<b>01475 712904</b>
<b>Subject:</b>	<b>Debt Recovery Performance 2012/13</b>		

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to advise Committee of the Council's Debt Recovery performance during 2012/13 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 contract with the Council's previous Debt Partners, Walker Love and Co expired on 30 September 2012. As approved by the Policy and Resources Committee, the Council appointed new Debt Partners, Alex M Adamson LLP.
- 2.2 The contract takes effect from 01 October 2012 and runs initially for 18 months with 3 possible 1 year extensions. Committee were advised that the change of contractor could initially have a negative impact on collection levels during 2012/13. As it transpired this was not the case with In Year collection levels being almost level to the year end position for 2011/12.
- 2.3 The contract with Alex M Adamson is only for the recovery of Council Tax and Non Domestic Rates. The main focus of the In-house Debt Recovery Team continues to be Council Tax, however more rigorous activity is being applied to the recovery of Sundry Debts (including Commercial rents) as well as Housing Benefit Overpayments. If further action or diligence is required for these categories of debt, ad hoc agreements can be made with Alex M Adamson LLP or another party.
- 2.4 Collection levels for 2012/13 in respect of accounts passed to the Council's Debt Partners decreased marginally by £34,000. A detailed breakdown of the categories of debt can be seen at Appendix 2.
- 2.5 Although in the early stages of the contract, Alex M Adamson LLP are proving to be very effective partners both in terms of their collection results to date but also in the ease of communication with them. They have opened an office in Cathcart Street where individuals can make payments and make basic enquires.
- 2.6 Despite another challenging year due to the change of debt partners, the ongoing effect of the Bankruptcy and Diligence (BAD) Act and the continuing difficulties due to the economic climate the Council Tax In year Collection level was maintained at 94.2% which is a significant achievement. Collection levels for Non Domestic Rates reached 97.05%, an increase of 0.81% from 2011/12
- 2.7 Payment by Direct Debit continued to rise in 2012/13 with 74% of In year receipts being received by this method of payment.
- 2.8 Appendix 3 shows an increase in net debt of £603,000 over 2012/13 however £1.97 million relates to the financing of the Business Property Renovation Allowance Scheme a loan for which was paid in March 2013. Without this net debt would have reduced by over 30% in the last 12 months.

### **3.0 RECOMMENDATIONS**

- 3.1 That the Committee note the Council's continued good performance in the area of Debt Recovery in 2012/13.

Alan Puckrin  
Chief Financial Officer

#### **4.0 PERFORMANCE FOR 2012/13 – DEBT PARTNERSHIP**

- 4.1 The contract with Walker Love and Co was due to expire on 31 March 2012, however the Policy and Resources Committee agreed to extend this contract until 30 September 2012. Following a tendering exercise, Alex M Adamson LLP were appointed. The contract takes effect from 01 October 2012 and runs initially for 18 months with 3 possible 1 year extensions.
- 4.2 To date the appointment of Alex M Adamson LLP has been a positive development. It had been highlighted to the Policy and Resources Committee in September 2012 that a drop in performance was expected due to the change of Debt Partner. This did not happen and as reported elsewhere in this report, in year collection levels for Council Tax remained at 2011/12 levels whilst Non Domestic Rates collection improved.
- 4.3 The Revenues Management Team meet regularly with Alex M Adamson as well as regular communications by telephone and email to ensure that there are clear lines of responsibility and that income maximisation as well as customer service aspects are to the forefront. Operational meetings and discussions also take place as and when required.
- 4.4 Alex M Adamson LLP are proving to be very effective partners both in terms of their collection results and also in terms of communication. They have opened an office in Cathcart Street where individuals can make payments and make basic enquiries.
- 4.5 Despite the difficulties with the economic climate, changing debt partner and the effects of the BAD Act, (which means that the £74.60 charge for payment needs to be recovered before the Council receives any monies) Inverclyde Council's In year collection level remained level at 94.2%.
- 4.6 Prior year collection can be difficult to collect and becomes more difficult with the passage of time. In 2012/13 however there was an increase in prior year collection bringing in £0.955 million compared to £0.92 million in 2011/12. This is attributable to the hard work of both the new Debt Partners and the in-house Debt Recovery Team.
- 4.7 Due to the recent change in contractor, there has only been one sequestration action raised in 2012/13. This resulted in a lump sum payment of £6.5k, being full settlement of the debt. Processes are being put in place with Alex M Adamson and it is anticipated that 2013/14 will see more accounts identified and Sequestration proceedings raised against debtors that are in a position to pay but refuse to do so.
- 4.8 A statement of the Debt Partnership performance is set out in Appendix 1 and Appendix 2. The Debt Partners collected approximately £1.76 million excluding direct payments to the Council in 2012/13 against a target of £1.9 million. No target was set for the new Debt Partner in 2012/13 due the mid year change over. A target will be set for 2013/14. Overall Council Tax collection including direct payments to the Council was £2.07 million against a collection figure of £2.1 million in 2011/12.

#### **5.0 INTERNAL DEBT RECOVERY PERFORMANCE**

- 5.1 Direct Debit uptake has risen again in 2012/13 from 72.6% of in year receipts in 2011/12 to 74% in 2012/13. Following the success of previous campaigns, a leaflets promoting Direct Debit was once again enclosed with the annual Council Tax bills.
- 5.2 The Debt Recovery Team based in the Municipal Buildings maintained their in year collection figure in line with 2011/12 performance. Considering the change in collecting agents mid year, this is a commendable effort and along with the Revenues Team this achievement contributed to the collection level being maintained by processing exemptions, discounts etc effectively and managing the billing process well.

- 5.3 Following the success of a similar exercise in previous years, the Debt Recovery Team once again 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.
- 5.4 The exercise identified 319 debtors with a good payment history and the Debt Recovery Team contacted these individuals by letter or telephone and managed to set up 40 direct debit arrangements. Payments of £104,663 have been received against these accounts during the exercise and arrangements were made to the value of £30,352. Similar exercises have been undertaken on subsequent warrants and there are now 446 arrangements in place with a debt value of £283,498. This is a worthwhile exercise as it stops people who currently have no debt getting into that cycle which can be difficult to break. It also protects the individuals from future 'charges for payment' and saves the Council commission charges.
- 5.5 The Debt Recovery Team has worked closely with the DWP to introduce a quicker, less labour intensive electronic method of applying for direct debit from benefit for customers with arrears who are in receipt of certain benefits. This has resulted in deductions from benefits increasing to £341,091 from £316,985 in 2011/12; an increase of £24,106.
- 5.6 In recognition of the financial inclusion issues in Inverclyde Finance Services continue to work closely with Money Matters with the view to maximising the number of arrangements with debtors before they reach the stage that diligence is applied. Benefit take up is also encouraged to ensure that entitlement is maximised as far as possible.

## **6.0 OVERALL POSITION OF COUNCIL DEBT AS AT 31 MARCH 2013**

- 6.1 The gross debt as at 31 March 2013 is £21.704 million as shown in Appendix 3. . There is a bad debt provision of £16.868 million, leaving net collectable debt of £4.836 million. This is an increase of £603,000, since 2011/12 and is wholly due to the Council making a loan of £1.97 million as part of the BPR Scheme in March 2013.
- 6.2 Appendix 4 provides more detail behind the figures and highlight new debts raised, payments received and debts written off. All Bad Debt provisions have been calculated in accordance with Council policies.
- 6.3 It should be noted that the above figures reconcile to the 2012/13 Accounts.

## **7.0 PLANS FOR 2013/14**

- 7.1 Work will continue with Alex M Adamson LLP. Targets for 2013/14 will be set and more robust statistical information from the Debt Partners will help forward planning for debt recovery.
- 7.2 The majority of the recovery activity for 2012/13 concentrated on Council Tax arrears although Walker Love also continued to collect for Sundry Debt, Non Domestic Rates and Housing Benefit Recoveries until the end of their contract on 30 September 2012. The new contract with Alex M Adamson LLP is only for Council Tax and Non Domestic Rates. The In-house Debt Recovery team will continue to 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.

- 7.3 The Council's Revenues Management and Debt Recovery Team together with the Council's 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.
- 7.4 The Policy and Resources Committee recently approved Inverclyde Council to become a pilot site for the Water Direct Scheme. It is anticipated that the implementation of Water Direct will be of assistance in the Council in recovering arrears in respect of Water and Sewerage debt.
- 7.5 Also approved by Policy and Resources Committee on 13 August 2013 was the withdrawal of Standing Order as a method of payment effective from 1 April 2014. Payment by Standing Order is an administrative and costly pressure. The direct debit process has been developed over the last few years and is more accessible and flexible than Standing Orders. By October 2013 on line payments will also be available and traditional methods such as payment at the customer service centre, at the post office, by telephone or by Paypoint will still be available. The withdrawal of Standing Order will be closely managed and those affected will be communicated with and given support and advice with regard to changing their payment method. The Council web site will also be updated to reflect this change.

## **8.0 IMPLICATIONS**

- 8.1 It is important that the Council maintains, and where possible improves, debt recovery levels in order to optimise the resources available to deliver Council Services. The underlying trend of reductions in debt represents an encouraging direction of travel.
- 8.2 Legal – None
- 8.3 Human Resources – 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**

Appendix 1

ANALYSIS OF DEBT PARTNER PERFORMANCE 2012/13

Council Tax

Financial Year	Combined 000's
1993/94	3
1994/95	3
1995/96	3
1996/97	9
1997/98	14
1998/99	16
1999/00	21
2000/01	24
2001/02	29
2002/03	22
2003/04	26
2004/05	29
2005/06	32
2006/07	44
2007/08	64
2008/09	70
2009/10	99
2010/11	179
2011/12	478
2012/13	903
<b>Total</b>	<b>2068</b>

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	1
2001/02	0
2002/03	2
2003/04	1
2004/05	0
2005/06	1
2006/07	8
2007/08	47
2008/09	21
2009/10	8
2010/11	28
2011/12	134
2012/13	179
<b>Total</b>	<b>430</b>

Other Debts

Type of Debt	Payments Received 000's
Sundry	17
Housing Benefits	11
Ind Rent	5
<b>Total</b>	<b>33</b>

Appendix 2

Debt Recovery Partnership  
Performance Comparison  
2011/12 & 2012/13

	2011/12 £000	2012/13 £000	Difference £000	%
Council Tax	2102	2068	-34	-1.62%
Non Domestic Rates	403	430	27	6.70%
Sundry Debt	37	17	-20	-54.05%
Housing Benefit	13	11	-2	-15.38%
Ind & Commercial Rent	10	5	-5	-50.00%
<b>Total</b>	<b>2565</b>	<b>2531</b>	<b>-34</b>	<b>-1.33%</b>

\* Excludes Community Charge debts as now fully written off

**Appendix 3**

	Position 31/03/2013 £'000	Position 31/03/2012 £'000	Movement £'000
<b><u>Council Tax</u></b>			
Gross Debt	15,779	15,463	316
Less: Bad Debt Provision	13,773	13,296	477
Net Debt	<u>2,006</u>	<u>2,167</u>	<u>(161)</u>
<b><u>Sundry Debt</u></b>			
Gross Debt	917	2,060	(1,143)
Less: Bad Debt Provision	325	339	(14)
Net Debt	<u>592</u>	<u>1,721</u>	<u>(1,129)</u>
<b><u>Industrial &amp; Commercial Rent</u></b>			
Gross Debt	121	160	(39)
Less: Bad Debt Provision	57	48	9
Net Debt	<u>64</u>	<u>112</u>	<u>(48)</u>
<b><u>Statutory Additions</u></b>			
Gross Debt	2,713	2,670	43
Less: Bad Debt Provision	2,713	2,670	43
Net Debt	<u>0</u>	<u>0</u>	<u>0</u>
<b><u>Long Term Debtors</u></b>			
Gross Debt	2174	233	1,941
Less: Bad Debt Provision	0	0	0
Net Debt	<u>2,174</u>	<u>233</u>	<u>1,941</u>
<b><u>Overall Totals</u></b>			
Gross Debt	21,704	20,586	1,118
Less: Bad Debt Provision	16,868	16,353	515
Net Debt	<u>4,836</u>	<u>4,233</u>	<u>603</u>



**2012/13 Debtor Movements**

**Appendix 4**

	Opening Position £'000	Additions £'000	Payments/ Reliefs £'000	Net Write-Offs £'000	Closing Position £'000
<b>Council Tax</b>					
Gross Debt	15,463	34,064	(33,355)	(393)	15,779
Less: Bad Debt Provision	13,296	870		(393)	13,773
Net Debt	<u>2,167</u>	<u>33,194</u>	<u>(33,355)</u>	<u>0</u>	<u>2,006</u>
<b>Sundry Debt</b>					
Gross Debt	2,060	7,737	(8,872)	(8)	917
Less: Bad Debt Provision	339		(6)	(8)	325
Net Debt	<u>1,721</u>	<u>7,737</u>	<u>(8,866)</u>	<u>0</u>	<u>592</u>
<b>Industrial &amp; Commercial Rent</b>					
Gross Debt	160	913	(945)	(7)	121
Less: Bad Debt Provision	48	16		(7)	57
Net Debt	<u>112</u>	<u>897</u>	<u>(945)</u>	<u>0</u>	<u>64</u>
<b>Statutory Additions</b>					
Gross Debt	2,670	300	(257)	NA	2,713
Less: Bad Debt Provision	2,670	300	(257)	N/A	2,713
Net Debt	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Long Term Debtors</b>					
Gross Debt	233	1,976	(29)	(6)	2,174
Less: Bad Debt Provision	0				0
Net Debt	<u>233</u>	<u>1,976</u>	<u>(29)</u>	<u>(6)</u>	<u>2,174</u>
<b>Overall Totals</b>					
Gross Debt	20,586	44,990	(43,458)	(414)	21,704
Less: Bad Debt Provision	16,353	1,186	(263)	(408)	16,868
Net Debt	<u>4,233</u>	<u>43,804</u>	<u>(43,195)</u>	<u>(6)</u>	<u>4,836</u>

**Notes:**

<sup>1</sup> Write offs are net of £40k collected for debt previously written off.

<sup>2</sup> Statutory additions are not written off in year but cancelled. Closing position reflects live statutory addition balance as at 31st March 2013.