

AGENDA ITEM: 8

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Meeting	Audit Committee
Date	31 August 2005
Subject	Debt Collection
Report of	Borough Treasurer
Summary	This report provides an update on the aged debt analysis and other matters.

Officer Contributors	Borough Treasurer Chief Revenues Officer Principal Income Manager Head of Highways Head of Cultural Services
Status (public or exempt)	Public
Wards affected	None
Enclosures	Summary of arrears outstanding as at 31 March 2005, 31 March 2004.
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	N/A
Contact for further information	
	David Sharpe, Chief Revenues Officer (0208 359 2327)

1. RECOMMENDATIONS

- 1.1 That the Committee review the position described in this report on debt recovery and its associated risk management.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Audit & Resources Overview & Scrutiny Committee on 27 October 2004 – resolved that the Heads of Customer Care and Highways and Design report to the Committee on the background issues, amounts outstanding and collection procedures for debts owed to their services related to library fines and parking fines respectively.

3. CORPORATE PRIORITIES & POLICY CONSIDERATIONS

- 3.1 Prompt recovery of debts is a key aspect of improving the Council's financial standing, as per the Borough Treasurer's Performance Management Plan.

4. RISK MANAGEMENT ISSUES

- 4.1 There are inherent risks in charging for services after they have been delivered, but despite working with services to maximise the income collected in advance or at point of service delivery it is inevitable that there will be circumstances where an invoice needs to be raised after the event.
- 4.2 Implementation of SAP is temporarily diverting resources away from debt recovery, but this has been compensated for in part by the backfilling of a post to undertake some of the data migration work (mainly data cleansing, catching up on write-offs) and undertake some specific debt recovery work (e.g. skip licences).
- 4.3 In defining the debt recovery specification under Modernising Core Systems (MCS) it was clear at an early stage that SAP lacked functionality in the latter stages of the debt recovery (dunning) process. Alternative solutions were reviewed and the opportunity is being taken to extend the licence for NORWELL, a new case management system being implemented in Legal Services. This system has the functionality required to manage hard to collect debts, including bankruptcy and liquidation processes. It has been demonstrated at another London Borough and will be implemented in Barnet as part of the overall MCS project.
- 4.4 With the demise of the mainframe after the implementation of SAP it will be necessary to replace the aging mortgages system. Again, this is not an area where SAP has the required functionality and a new stand-alone system is being procured to take this forward.

5. FINANCIAL, STAFFING, ICT & PROPERTY IMPLICATIONS

- 5.1 Under SAP, all services raise their own invoices, which some did previously. The Income Section within Borough Treasurer's will then focus entirely on debt recovery, with the objectives of improving the speed of

escalation through the recovery processes and extending the range of recovery options – e.g. greater use of bailiffs, bankruptcy and liquidation.

- 5.2 We are reviewing recovery procedures and are developing an overall debt management strategy, which will define what is required of services in collecting income and raising invoices, and what they can expect from the Debt Recovery Team.

6. LEGAL ISSUES

- 6.1 None.

7. CONSTITUTIONAL POWERS

- 7.1 Constitution Part 3 Paragraph 2 details the functions of the Audit Committee including “ensuring that the council’s financial reports...and the action taken by the council to implement fully a risk management system are balanced, fair, conform to accountancy standards and meet prevailing best practice.”

8 BACKGROUND INFORMATION

- 8.1 The value of invoices raised in recent years is as follows:-

2001/02	£23m
2002/03	£22m
2003/04	£60m
2004/05	£81m.

- 8.2 The increase in 2003/04 was due to the monthly billing of schools for the reimbursement of payroll payments. In 2004/05, the increase relates to the billing of Barnet Homes for the reimbursement of its payroll. These payroll reimbursement invoices to schools and Barnet Homes are large and each month 12 invoices account for around £4.2m.
- 8.3 Poor functionality within the existing debtors system on management reporting and automated recovery processes have been mentioned in previous reports. The specification for MCS is more comprehensive and the project team has worked to ensure SAP delivers the required functionality.
- 8.4 At the meeting of the Audit & Resources Overview & Scrutiny Committee on 27 October 2004, Members asked about debts that were over 2 years old. The position at 31 March 2005 (£4.20m) was a marginal improvement on the position at 31 March 2004 (£4.34m).
- 8.5 The figures for debt over 2 years old will fall over the coming months as a result of a concerted effort to catch up on write-offs. Irrecoverable debt has not been written-off on a regular basis, which is an issue the debt management strategy (see 5.2) will address. Debts mostly affected by this purge on write-offs will be home helps, residential accommodation, leaseholders and commercial rents.
- 8.6 In addition to catching up on write-offs, certain debts have been targeted for stronger debt recovery action, for example:-

- skip hire companies that have been running up large debts and have not responded to the usual recovery methods. Since March, £21,000 has been collected by threatening removal of skips. The sum collected amounts to 66% of the outstanding debt;
- provision of large waste bins. Since March, £57,000 has been collected out of a debt of £178,000 and payments are ongoing by monthly arrangement. Some of this debt goes back to 2002/03.

8.7 Direct Debit take-up continues to increase. It is one of the cheapest payment options for the Council and can improve collection, although in the first instance good payers are generally the ones who convert to direct debit first. Key statistics are shown below:-

	<u>Number</u>	<u>Value</u>
2002-03	20	£921
2003-04	2,425	£200,927
2004-05	6,407	£575,456

8.8 Management action by the Income Team has also been taken to improve business processes, for example:-

- vehicle maintenance invoices used to be raised for individual jobs, whereas now composite invoices are raised for each customer;
- from April 2003 the Income Team has increased its monitoring of low value invoices with a view to encouraging services to obtain payment in advance.

8.9 At the meeting of the Audit & Resources Overview & Scrutiny Committee on 27 October 2004, Members asked for a report from the Head of Highways and Design on parking debts and a report from the Head of Cultural Services on library fine arrears. These reports are set out below.

Parking

8.10 The parking service issues Penalty Charge Notices (PCN) by means of Parking Attendants (PAs) and by monitoring cameras for bus lane contraventions. For 2003/4 and 2004/5 figures are as follows:

	2003/4	2004/5
PA issued PCNs	£181,881*	£155,919
Bus Lane PCNs	£29,583	£16,425
Revenue (PA PCNs)	£5,961,832	£5,017,121
Revenue (Bus Lane)	£1,432,409	£614,924

* Note: historical inconsistency of reporting means that the "by PA" figure for 03/04 included voided penalties and warning notices so the actual figure issued is some £20,000 lower.

- 8.11 The reduction of PCNs issued by PAs in 2004/5 is attributed to recruitment and training issues (now addressed). The reduction of bus lane camera PCNs was partially due to the removal of a camera and partly to be expected as the introduction of camera enforcement - new in 2003 - led to drivers subsequently avoiding the bus lane when they found they were being penalised.
- 8.12 The "face value" of a PCN is £80 or £100 for bus lanes. A 50% discount applies if paid within 14 days of issue. The processing of PCNs is complex, and prescribed by the provisions of the Road Traffic Act 1991.
- 8.13 PCNs issued are not debts - they are allegations of contraventions and as such open to challenge and appeal. There are exemptions whereby on production of suitable evidence a penalty may be cancelled. Councils are also obliged to consider cancellation on mitigating circumstances. Unpaid PCNs are managed through a statutory process on a specialist computer system. Following the tracing of the keeper through the DVLA, a Notice to Owner is served by post. Bus lane PCNs are served by post using DVLA information, and an Enforcement Notice is then served in place of a Notice to Owner. If still unpaid a Charge Certificate is issued in either case and the penalty increased by 50%.
- 8.14 If still unpaid the Council registers the charge as a debt at the Traffic Enforcement Centre at Northampton County Court. This is a bulk automatic process. There is no hearing. Disputed penalties may be adjudicated on at an independent tribunal - the Parking and Traffic Appeals Service - after Notice to Owner/Enforcement Notice and before Charge Certificate.
- 8.15 If the debt is unpaid a warrant of execution is obtained and the case is passed to a bailiff to recover. The Council does not pay the bailiffs who are empowered to add charges in accordance with regulations. The bailiff is therefore incentivised in that if they do not recover the debt for the Council they will not recover their charges either.
- 8.16 The parking team now has four bailiff firms appointed to recover parking debts. Comparative data is being collected to review performance and an additional management resource will be actively discussing performance management issues with each bailiff in the third quarter of this year covering their successes, their proposals, complaints made, and to set targets for future service delivery. Should a bailiff fail to perform adequately, fewer cases will be referred, and if performance fails to improve an alternative bailiff may be appointed to replace them.
- 8.17 The use of several bailiffs is good practice in the recovery of parking debts.
- 8.18 In 2003/4, 37,872 penalty charges were registered as debts and 34,927 passed to bailiffs
- 8.19 In 2004/5 the figures were 36,438 and 33,731 respectively.
- 8.20 Comparison of debts registered in a given year and PCNs issued in the same year is inappropriate because of the time taken to process.

Generalising, the above figures equate to approximately 22% of the PCN issue being registered as debts. Comparisons with other boroughs are hard to make, but the indications are that this is of a similar order of magnitude as neighbouring authorities.

- 8.21 Current monitoring indicates that bailiffs recover in the range of 10% to 12% of the debts passed to them. Whilst this information is not readily available from other authorities, initial informal feedback indicates it is a typical recovery rate. When the performance management work is under way, a pro-active effort to seek comparable benchmarking data from similar and neighbouring authorities will be undertaken.
- 8.22 A data analyst has been brought into the service to explore in greater depth the data held and identify trends and patterns that can inform the process and drive change with the aim of varying process or implementing new initiatives that might improve recovery rates.
- 8.23 For example, it is to be expected that people who, for whatever reason, cannot be traced at the address at which their car is registered will increasingly park unlawfully in the knowledge that a bailiff will not be able to trace them so the proportion of unrecoverable penalties will increase.

The aim is to build a picture of the scale of this problem and to see if any persistent evaders are parking in consistent locations at certain times and thus send the bailiff to those sites in addition to targeting the supposed home address.

Unrecoverable debts will be written-off. The write off process is to be reviewed on the appointment of an interim Parking Process Manager in September 2005 to ensure that all unrecoverable debts have been properly accounted for, in line with Council procedures.

Libraries

- 8.24 Library fines are charged for the late return or late renewal of borrowed items. Items are charged at the rate of 15p per item per day up to a maximum of £9. Anyone who fails to pay fines has a block placed on their use of the library until the account is cleared. This block is currently activated at £3.
- 8.25 There is currently a total debt of £146,691, made up of 18,564 individual debts, of which 97.8% are for less than £50. The average debt is £7.90.
- 8.26 The majority of the debt on the system at any given time is expected to be paid when the customer next visits the library. There is a strong incentive to pay as customers are otherwise prevented from borrowing library stock and other services such as hiring a PC.

9 LIST OF BACKGROUND PAPERS

- 9.1 None

BS - JEL

BT - CM

Debts over 2 years old - as at 31 March

	2004	2005	Increase/ (Decrease)	% of 2005 Total
	£	£	£	
Meals at Home	16,712	24,562	7,850	
Home Helps	277,282	350,693	73,411	
Residential Accommodation	1,913,952	1,826,152	(87,800)	@
Respite care & adaptations to property	99,558	112,063	12,504	
Piper lifeline service	1,437	2,678	1,241	#
ADULT SERVICES	2,308,941	2,316,148	7,207	55%
Court costs awarded and rechargeable	667	4,995	4,328	#
Major Works - charges for non-routine work to Leasehold props	836,207	541,304	(294,903)	#
Service Charges - routine maintenance charges	539,248	382,896	(156,352)	#
Equity Share - routine maintenance charges	2,444	2,383	(61)	#
Tenant Recharges - rechargeable repairs to council houses	17,729	69,512	51,783	#
Charges for caretakers private phone calls	1,600	1,630	30	#
HOUSING	1,397,895	1,002,719	(395,176)	24%
Building cleaning - schools	15,950	15,950	(0)	
Building maintenance - schools	6,603	6,650	47	
Other local authorities (e.g. SEN rescoupmnt)	156	148	(8)	
Professional Development Centre - training courses fees	2,191	(1,949)	(4,140)	
Building maintenance contract fees - schools	242	242	0	
EDUCATION	25,143	21,041	(4,102)	1%
Rechargeable Works - street furniture repairs, relocating st lighting etc	17,976	22,574	4,598	
Traffic surveys	59	3,646	3,587	
New Roads & Streetworks Act - inspections, utilities default notices	0	16,363	16,363	
PLANNING, HIGHWAYS & DESIGN	18,035	42,583	24,548	1%
Works in Default	102,489	97,400	(5,089)	
Removal of abandoned vehicles	885	133,927	133,042	
Drain cleaning / tree removal	3,517	15,105	11,588	
Catering charges for schools & private functions	0	1,957	1,957	
Commercial waste removal	21,777	40,548	18,771	
Pest disinfestation	222	282	60	
Charges for disposal of medical waste	216	178	(38)	
Licence renewal fees	910	858	(52)	
Rechargeable Works (inc. road maintenance for other authorities)	0	27,440	27,440	
ENVIRONMENTAL & NEIGHBOURHOOD SERVICES	130,016	317,695	187,679	8%
Hire fees multi-media centre at Hendon Library	770	770	0	
Fines & book replacement charges	594	609	15	
CULTURAL SERVICES	1,364	1,379	15	0%
Grounds maintenance - schools	284	300	16	
Grounds maintenance - other	2,467	2,812	345	
LEISURE & YOUTH SERVICES	2,751	3,112	361	0%
Mill Hill Depot Training Centre - training courses	6,578	8,988	2,410	
Schools payroll / CRB checks	1,054	804	(250)	
Recovery of overpaid staff salaries	25,235	41,677	16,442	
HUMAN RESOURCES	32,867	51,469	18,602	1%
Car loans - former employees	52,871	58,246	5,375	
Overpayments of education awards	26,906	23,922	(2,984)	
Overpayments of awards/grants	31,216	29,680	(1,537)	
Various - not allocated to services	119,034	120,536	1,502	
BOROUGH TREASURERS / UNALLOCATED	230,027	182,805	(47,222)	4%
Commercial rents	188,523	212,392	23,869	
VALUATION	188,523	212,392	23,869	5%
	4,335,561	4,176,131	(159,430)	100%

These debts are managed by Barnet Homes

@ Charges on property amount to around £1m.