

# Southend-on-Sea Borough Council

Report of Corporate Director of Support Services  
to  
**Cabinet**  
on  
15<sup>th</sup> March 2011

Report prepared by:  
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Agenda  
Item No.

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**Updated Debt Collection and Recovery Strategy**  
**Economic and Environmental Scrutiny – Executive Councillor: Councillor AJ Moring**  
***A Part 1 Public Agenda Item***

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**1. Purpose of Report**

- 1.1. To inform members of the updated Debt Collection and Recovery Strategy.

**2. Recommendation**

**2.1 That the Cabinet:**

**2.1.1 Approve the updated Debt Collection and Recovery Strategy attached as Appendix 1.**

**2.1.2 Notes that monitoring of the council's debt management position will now be presented to Cabinet on a quarterly basis.**

**3. Background**

3.1. The previous Debt Recovery Strategy covered Miscellaneous (Sundry) Debts. These include beach huts, moorings, Careline and Rent Deposit Guarantees. However, the Council collects other types of debt including Council Tax, Business Rates, Car Parking and Penalty Charge Notices. The updated Debt Collection and Recovery Strategy covers all types of debt.

3.2 All debts owed to the Council should be pursued, as effective debt management is crucial to the efficient and cost effective running of any organisation. Most of the debt raised by the Council can be pursued in the same way as any business would; these are referred to in the updated strategy as 'commercial' debts.

3.3 However, due to the nature of the services provided by the Council and the role that it has in protecting the most vulnerable people in society, there will be some types of debt that cannot be pursued in the same way; these are referred to in the updated strategy as 'social' debts. Even though the approach to debt collection for this type of debt is more considered, the Council will still ensure that those with the means to pay do so.

- 3.4 The updated Debt Collection and Recovery Strategy is attached as Appendix 1 to this report. It sets out the Council's strategy for the collection of all debt and the enforcement and debt recovery of all debts that are 'commercial' in nature and some debts that are 'social' in nature if this is deemed appropriate.
- 3.5 A report was submitted to Audit Committee on 13 January 2011 to inform them of the updated strategy. Appendix 1 to this report was also attached to that report.
- 3.6 The updated strategy has been informed by the work undertaken on the Delivery Excellence projects on payments and financial management processing (T20) and debt collection and debt raising process (T25). This includes work to reduce instances where low value debts are raised by finding appropriate alternatives and debt clearance work with Essex County Council and the PCT which has led to £800k of debt being recovered. On-line payment in advance for services such as licensing is also being investigated to see if it is possible and practical.
- 3.7 The strategy will be further enabled by the changes to debt processes as a result of the implementation of Agresso. This includes enforcing compliance for provision of relevant information for certain types of debt, strengthened system procedures around reminder letters and legal debt recovery and an enhanced ability to have a 'single view' of the customer across all types of debt. The number of days between reminders and notices varies by debt type and will be reviewed as part of the implementation.
- 3.8 This updated debt strategy, together with the implementation of Agresso will enable better management reporting, in particular quarterly updates to Cabinet on the debt management position.
- 3.9 The updated strategy refers to debt being raised by a corporate billing team wherever possible and the debt being collected and recovered through one corporate function. This means that there is a corporate approach to billing, collection and recovery of debt but does not necessarily mean that the team will be in one location or will have one manager. It allows for the various types of debt and what is appropriate to each one, for instance, the collection of Council Tax and Business Rates are bound by complex legislation and therefore the collection policy is less flexible and limits discretion.
- 3.10 It can be seen from the strategy in Appendix 1 that there is a robust process to ensure the debt is collected yet there is flexibility to ensure that individual circumstances are taken into consideration, an affordable payment plan is negotiated and an appropriate level of enforcement is applied commensurate with the type of debt.
- 3.11 The corporate debtors team will decide, in consultation with the department who originated the debt, whether legal recovery or the use of a debt collection agency would be most appropriate and cost effective. Legal recovery of the debt may include placing a charge on property, repossession of property or bankruptcy proceedings as appropriate. This can be directly or after the use of a debt collection agency.

- 3.12 For commercial debts, where the use of a debt collection agency or legal recovery is not deemed to be cost effective, the debts may be sold to a debt factoring company. The decision to use a debt factor will be taken by the corporate debtors team, in consultation with the department who originated the debt, as any fees paid to the factor will be charged to the originating department.
- 3.13 It is inevitable that despite the attempts of the council, debt collection agencies and the courts some debt will remain unpaid. Under these circumstances the Council apply the debt write off procedure which is based around the rules set out in Section 4f of the Constitution including the following authorisation limits:

**Write Off or Write on Authorisation Levels**

£1 to £5,000	Team Manager - Income
£5,000 to £25,000	Chief Finance Officer
Over £25,000	Cabinet

- 3.14 This ensures that there is adequate internal officer scrutiny of debts being written off. Debts between £1 and £10 can be delegated to officers below Team Manager level at the discretion of that manager.
- 3.15 If the agreed processes have been followed at the debt identification and debt raising stages and the raising of low value debts is avoided, there should be very few instances where debts are uncollectable or uneconomic to collect.
- 3.16 If agreed, the updated Debt Collection and Recovery Strategy will be distributed with the appropriate guidance and training on its use. This will be done in conjunction with the communications strategy relating to the Delivering Excellence projects mentioned in paragraph 3.6.

**4. Other Options**

- 4.1 There are many options available for a Debt Collection and Recovery Strategy. However, the strategy attached as Appendix 1 enables robust processes to ensure the debt is collected yet allows flexibility to ensure that individual circumstances are taken into consideration, an affordable payment plan is negotiated and an appropriate level of enforcement is applied commensurate with the type of debt.

**5. Reasons for Recommendations**

- 5.1 The updated strategy has been informed by the work undertaken on the Delivery Excellence projects on payments and financial management processing and debt collection and debt raising process. The previous Debt Recovery Strategy covered Miscellaneous (Sundry) Debts and the updated Debt Collection and Recovery Strategy covers all types of debt.

## **6 Corporate Implications**

### **6.1 Contribution to Council's Vision & Corporate Priorities**

The prompt and efficient collection of income is fundamental to maintaining a sustainable financial position for the Council.

### **6.2 Financial Implications**

The financial implications are highlighted in the report

### **6.3 Legal Implications**

The issuing, collection and write off of debt is operated within a statutory framework as applicable to the circumstances.

### **6.4 People Implications**

The collection of debt affects residents and business of Southend

### **6.5 Property Implications**

Some debts raised are in relation to either property rent (domestic and commercial) or servicing of properties.

### **6.6 Consultation**

The amounts of the some debts raised are based on the 'Scale of Fees and Charges' report agreed by Council each February as part of the Budget setting process.

### **6.7 Equalities and Diversity Implications**

The Debtor Recovery policy ensures that an individual's circumstances are considered when raising and pursuing debt

### **6.8 Risk Assessment**

There is a risk of negative publicity regarding the enforcement and debt recovery of debts that are 'social' in nature where this is deemed appropriate.

### **6.9 Value for Money**

The prompt and efficient collection of income is fundamental to maintaining a sustainable financial position for the Council.

6.10 Community Safety Implications

None

6.11 Environmental Impact

None

**7 Background Papers**

7.1 None

**8 Appendices**

8.1 Appendix 1 – Updated Debt Collection and Recovery Strategy

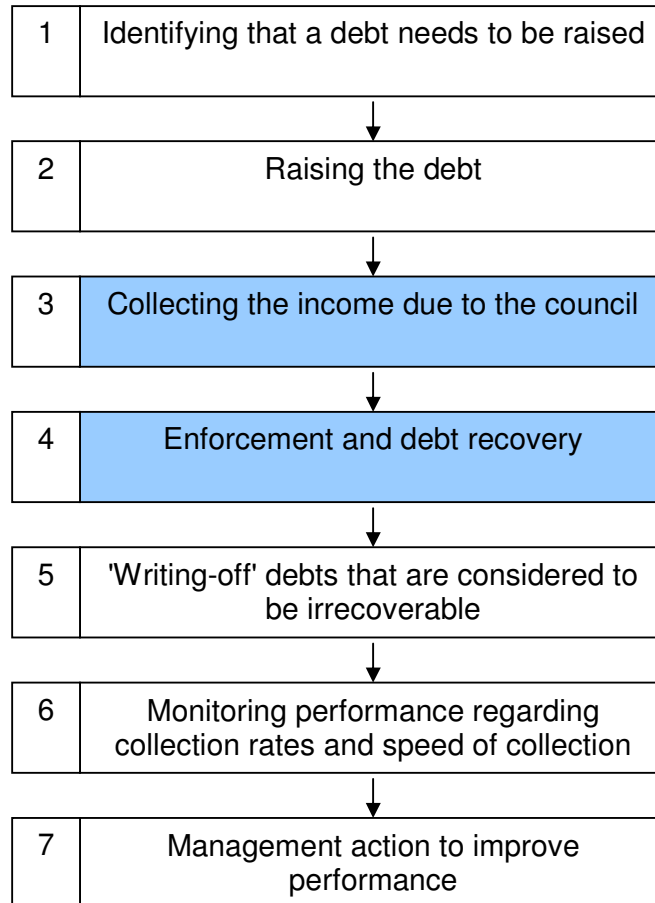


# **Debt Collection and Recovery Strategy**

**March 2011**

## 1. Introduction

Debt management consists of the following process:



This debt management process is guided by the following principles:

- a. The identification that a debt needs to be raised will take place in the directorates (stage 1 above);
- b. The raising of debts will be undertaken by the corporate billing team wherever possible and by exception will be undertaken by the directorates where agreed by the Chief Finance Officer (or deputy) (stage 2 above);
- c. All staff raising debt will need specific training and be made aware of their responsibilities before being authorised in the system to do so. Part of the process will be an assessment to determine if it would be more efficient to raise the debt centrally rather than devolved to a service (stage 2 above);
- d. Debt will be collected and recovered through one corporate collection and recovery function (stages 3 and 4 above);

- e. Extra costs incurred in debt recovery (e.g. legal costs) will be charged to the originating department (stage 4 above);
- f. Where it is clear that a debt is uncollectable or is uneconomic to collect it will be promptly written off and the originating department will be charged (stage 5 above);
- g. Aged debt (debt outstanding for more than 30 days) will be reported with a narrative of actions to collect (subject to appropriate de-minimus levels) (stage 6 above);
- h. Management action will be taken when necessary to improve performance regarding collection rates and speed of collection (stage 7 above);
- i. All debt will be invoiced and tracked on the corporate debtors system wherever possible. Where other systems are being used (e.g. for car parking debts) these systems will be kept under review and the debts will be moved to the corporate system when practical. Where the use of the corporate debtors system is not appropriate the system used needs to be approved by the councils chief finance officer (or deputy) and the service area will be responsible for reporting the monthly debt position to ensure an accurate corporate debt position can be understood;
- j. While debt is managed in a central team, ownership of the debt remains with the directorate originating the invoice;
- k. The directorate requesting the debt has a duty to assist and co-operate with the corporate function to ensure collection of debt;
- l. The directorate requesting the debt has a duty to retain supporting documentation to ensure the debt can be collected and evidenced;
- m. The directorate requesting the debt has a duty to ensure that the debt is valid and reasonably collectable;
- n. The Council expects full payment of all debt. Where an invoice is part disputed we will collect the undisputed amount and seek resolution for the outstanding sum.

All debts owed to the Council should be pursued, as effective debt management is crucial to the efficient and cost effective running of any organisation. Most of the debt raised by the Council can be pursued in the same way as any business would; these are referred to in this strategy as 'commercial' debts.

However, due to the nature of the services provided by the Council and the role that it has in protecting the most vulnerable people in society, there will be some types of debt that cannot be pursued in the same way; these are referred to in this strategy as 'social' debts. Even though the approach to debt collection for this type of debt is more considered, the Council will still ensure that those with the means to pay do so.



## **2. Scope**

The Council raises charges for a wide range of services that it provides as well as collecting local taxes from residents and businesses in the borough. This document sets out the Council's strategy for the collection of all debt and the enforcement and debt recovery of all debts that are 'commercial' in nature and some debts that are 'social' in nature if this is deemed appropriate.

These stages of the debt management process are highlighted blue in the above chart and are set within the context of the guiding principles set out above.

## **3. Assumptions**

The strategy for debt collection has been based on the following assumptions:

- That online payment in advance for services is encouraged where appropriate;
- That raising low value debt (such as peppercorn rents) is avoided where appropriate alternatives can be found;
- That agreed processes have been followed at the debt identification and debt raising stages, in accordance with legislative provisions, contract terms and best practice;
- That debts have been classified into 'commercial' and 'social' at the debt raising stage;
- That payment of debt by Direct Debit will be encouraged wherever possible;
- That the guiding principles for debt management have been followed, as set out in section 1.

The strategy for debt recovery has been based on the following assumptions:

- That agreed processes have been followed at the debt collection stage in accordance with legislative provisions and best practice;
- That the guiding principles for debt management have been followed, as set out in section 1.

## **4. Debt Collection Strategy**

The debt collection process starts when a customer fails to make payment by the due date.

It is recognised that people do not pay their debts for a variety of reasons. It could be due to living in or on the margins of poverty and therefore will have difficulty in paying. The Council will use its best endeavours to help such people and to minimise the impact of debt on them.

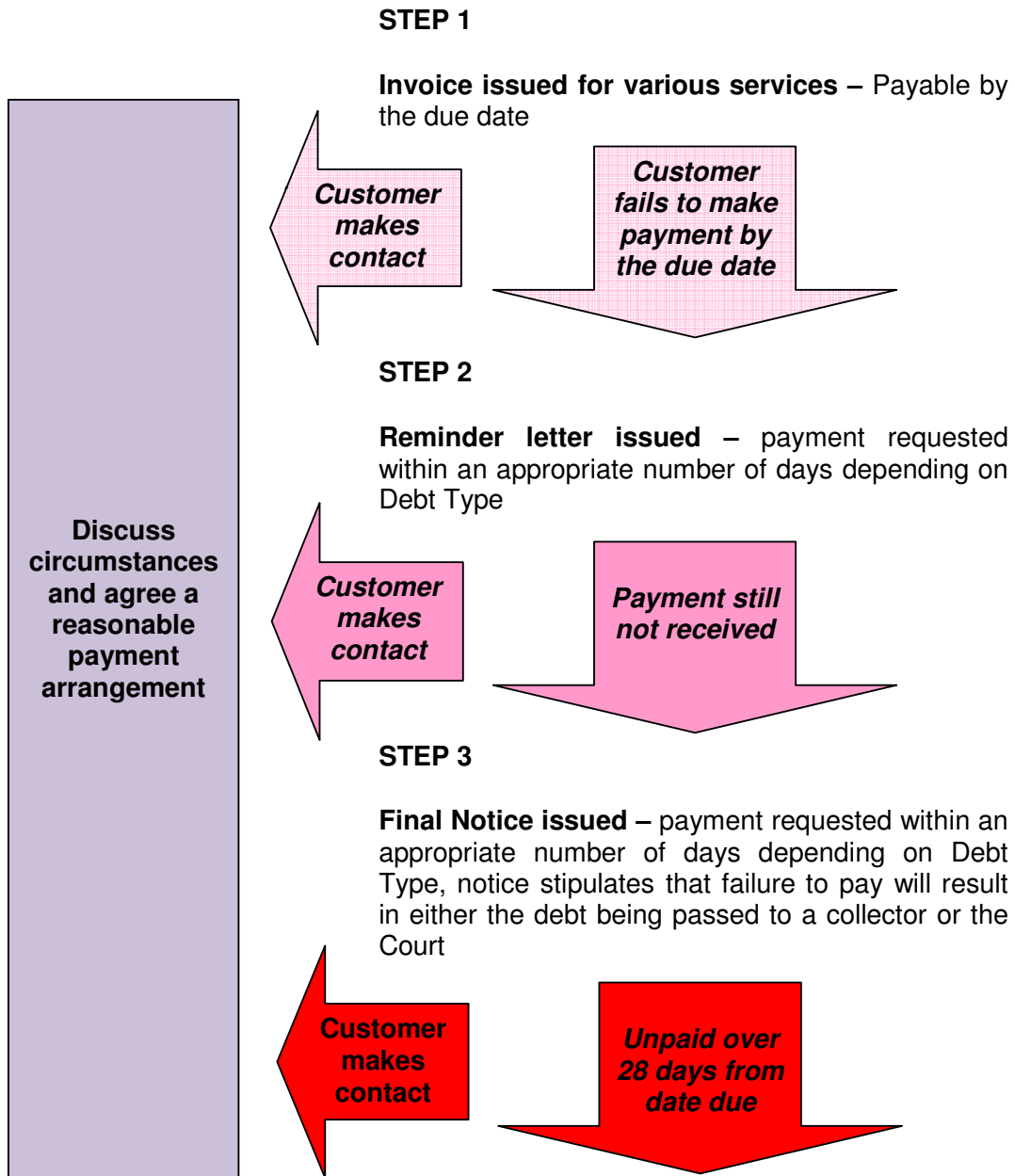
Some people may be able to pay but do not because of an oversight or personal difficulties, not because of a deliberate decision to avoid or delay payment. The Council will seek to help such people develop a culture of payment by encouraging them to make contact and discuss any difficulties. Where a person makes contact, their circumstances will be considered with a view to agreeing a reasonable payment arrangement.

Where people have fallen or are likely to fall into arrears, Council officers will work with them and their representatives to set reasonable payment levels that they can maintain and that seek to maximise the council's revenue.

### **4.1 Aims of the debt collection strategy**

- To encourage people to make early contact to avoid the build up of debt;
- To enable people who fall into arrears to come to payment agreements appropriate to their circumstances;
- To ensure that payment arrangements reflect the ability to pay as well as the level of debt owed;
- To help to reduce the effect of debt on people on low income;
- To acknowledge and respect a person's obligations to their dependants and recognise the need for a person to maintain a reasonable standard of living;
- To maximise the level of income collected by the authority as appropriate;
- To identify deliberate non-payers or people who delay payment so that the debt recovery procedures can be undertaken promptly;
- To promote a corporate approach towards sharing debtor information and managing multiple debts owed to the Council;
- To acknowledge the role of the recognised advice agencies and to work with such agencies whenever possible;
- To treat individuals consistently and fairly regardless of age, race, religion, gender, disability and sexual orientation.

## 4.2 Debt Collection Process



To aid debt collection the Council will provide clear and prompt information about bills and liabilities.

The information provided will show;

- What the bill or liability is for;
- The amount due;
- How to make payment;
- A contact point for all enquiries.

All such correspondence will be clearly written, without the use of jargon and will contain, where appropriate, information about where to get independent advice.

The Council will provide a choice of convenient methods of payment for bills and invoices and details of these options will be advised on each bill. Whatever the method of payment individuals must ensure that payments reach the Council by the due date.

#### **4.3 Making arrangements for people in arrears**

The Council will actively encourage people to get in touch at an early stage if they are having difficulty paying and, when appropriate, advise them where to get independent advice. Many people are unaware of their rights and responsibilities and of the availability of a variety of payment arrangements. If people contact the Council early officers will be able to discuss the situation and prepare a payment plan.

When people contact the Council, officers will

- Check whether they should be paying less or nothing at all by ensuring that all the relevant benefits, discounts, exemptions and rebates are being claimed;
- Advise on the most appropriate payment methods;
- If appropriate, advise them to contact an independent advice agency.

When a person makes contact a realistic agreement for payment will be made.

The customer will be reminded to contact the Council if they anticipate problems in meeting any instalment due date. They will be advised not to wait until they have received a written response to their offer of payment, but to start and maintain payments.

The Council recognises that some groups of people may have difficulty understanding or dealing with their financial problems. A suitable payment plan will be agreed along with the payment method most convenient to the person's circumstances. Once the payment plan is agreed it will be closely and regularly monitored and when necessary, may be reviewed.

When negotiating arrangements for payment, staff will ensure that any current instalments are being maintained, i.e. the arrangement will be in addition to and conditional on, current debt being paid. When an arrangement is made on a total balance the minimum arrangement will be the usual current instalment plus a contribution towards the arrears.

#### **4.4 Obtaining background information and documentary evidence**

Officers should try to get as much detail as possible of a person's circumstances to make the best assessment of their ability to pay. However if a person refuses to divulge any information this could be used as a reason for refusing to make an arrangement.

In some cases it may be necessary to request documentary evidence to confirm particular details when arriving at a payment arrangement. Individuals should not however be asked for documentary evidence unless it is necessary.

If it is necessary the individual should be told of the particular items that require confirmation and be given a specified reasonable time limit within which they are required.

The individual should be advised that if the evidence is not produced within the agreed timescale the offer of payment may be rejected and further action could be taken.

All information collected is governed by the Data Protection Act 1998 and the Council has a procedure and policy in place to comply with the Act.

#### **4.5 Monitoring payment arrangements**

The Council has a duty to monitor all payment arrangements and will ensure;

- All payment arrangements will be closely monitored;
- Prompt action will be taken to collect the debt in respect of missed payments;
- The individual should be reminded that the date on which instalments are to be paid is the final date on which money should reach the Council's account;

- The responsibility remains with the individual for making sure they allow sufficient time for the payment to reach the Council's account by the due date;
- Action may be taken, even where payment is received shortly after the due date.

When payment arrangements are not maintained, it is important to ensure that prompt action is taken (by the individual) to try and bring the arrangement back up to date. Although the Council ideally will require the original agreement to be brought up to date within a short timescale, if there has been a significant change in circumstances it may be possible to negotiate a new arrangement.

#### **4.6 Debt collection charges to customers**

The first reminder letter will not carry a charge to the customer but will contain a notification that subsequent reminder letters may be subject to a charge.

The Council maintains the right to charge for reminder letters and statements.

The council maintains the right to charge interest on late payments of certain types of debt in accordance with the agreements in place.

## **5. Debt Recovery Strategy**

Where people fail to make payment and fail to make contact or maintain arrangements, the debt collection processes will have been exhausted. In these cases recovery action will be undertaken using the debt recovery strategy. This will be the case for all commercial debt and for some social debt where it is deemed appropriate in consultation with the department who raised the debt.

In some cases people may deliberately set out to delay or not make payments and all methods of enforcement will be used in these cases.

### **5.1 Aims of the debt recovery strategy**

- To ensure that when we take enforcement action it is appropriate and likely to be effective;
- To ensure a professional, consistent and timely approach to recovery action across all of the Council's functions;
- To effectively pursue debts owed to the Council;
- To ensure prompt recovery of debt;
- To maximise the level of income collected by the authority;
- To treat individuals consistently and fairly regardless of age, race, religion, gender, disability and sexual orientation.

### **5.2 Debt recovery process**

The corporate debtors team will decide, in consultation with the department who originated the debt, whether legal recovery or the use of a debt collection agency would be most appropriate and cost effective.

Where the use of a debt collection agency is deemed appropriate the debt will be passed promptly to an agency that has been approved by the Council's procurement department. The Council will only pass to the agency any information that is necessary to the prompt collection of the debt in compliance with its procedures and policy for Data Protection.

Where legal recovery of the debt is deemed to be cost effective a pre-litigation letter will be issued and the debt will be referred to the Council's legal department for recovery action through the County Court. This recovery action may include placing a charge on property, repossession of property or bankruptcy proceedings as appropriate. This can be directly or after the use of a debt collection agency.

For commercial debts, where the use of a debt collection agency or legal recovery is not deemed to be cost effective, the debts may be sold to a debt factoring company. The decision to use a debt factor will be taken by the

corporate debtors team, in consultation with the department who originated the debt, as any fees paid to the factor will be charged to the originating department.

### **5.3 Non recovery of debt**

Debt will be written off in accordance with the Council's agreed write-off procedures where:

- Legal recovery of the debt is not deemed to be cost effective;
- The debt is uneconomic to collect;
- The debt is uncollectable.

If the agreed processes have been followed at the debt identification and debt raising stages and the raising of low value debts is avoided, there should be very few instances where debts are uncollectable or uneconomic to collect.

Write-offs of debt will be charged back to the originating department.