

**To:** City Executive Board

**Date:** 12th June 2013

**Report of:** Head of Finance

**Title of Report:** CORPORATE DEBT MANAGEMENT POLICY

**Summary and Recommendations**

**Purpose of report:** To seek the approval and formal adoption of the Oxford City Council Corporate Debt Management Policy.

**Key Decision:** No

**Executive lead member:** Councillor Ed Turner

**Policy Framework:** Efficient and Effective Council

**Recommendations:** That the City Executive Board;

Approve the Corporate Debt Management Policy and associated action plan, as set out in Appendices A & B attached.

**APPENDICES TO REPORT**

**APPENDIX A: Revised Debt Management Policy**

## BACKGROUND

- 1.1 The Council's income is diverse in nature ranging from low value debts for one-off items, significant value debts for potentially re-occurring items such as overpaid housing benefits, to business rates, council tax and council house rents.
- 1.2 In respect of income collection the Council's Financial Rules state that Heads of Service are responsible for :
  - raising invoices as soon as reasonably practical for all goods and services provided on credit; and
  - following the systems and procedures laid out by the Head of Finance as contained in the Cost Centre Managers Manual and within the Guidance on Debt Collection on the intranet
- 1.3 In total it is estimated that the Council raises invoices for over £200 million of income per annum using a number of systems depending on the category of debt including

Capita	- Business Rates, Council Tax and overpaid Housing Benefits
Iworld	- Council House Rents
Agresso	- General Debtors
Uniform	- Licences
- 1.4 As at 31<sup>st</sup> March 2013 arrears stood at around £24.6 million.
- 1.5 In 2012/13 the collection rate for business rates was 97.81% compared to a target of 98%. On council tax the collection rate was 97.01% compared to a target of 97.10%. On rent arrears the collection rate was 96.83% compared to a target of 97.60%. The increase in rent arrears is attributable to the Direct Payments pilot that would not have been taken into account when the target was set.
- 1.6 Reduced Government grant and our increased dependence on income from business rates and trading, along with pressures on tenants and Council Tax payer's incomes due to the economic downturn and welfare changes means effective debt collection is more important than ever.
- 1.7 Over the past few months Finance staff have consequently been working with Managers across the Council to:
  - Review current processes for debt management with a view to improving efficiency ; and
  - Updating the Council's current Debt Management Policy

## FINDINGS

- 1.8 A review of processes and procedures indicates that:

- The Council should introduce a process of credit checks before supplying certain goods and services
- The Council should always ensure that invoices are raised promptly, at the point of providing goods or services
- Debt collection across the Council could be more co-ordinated
- Direct Debit, the cheapest method of collection, could be more actively promoted across all areas of the Council
- Recovery of unregulated debt should be managed by the Finance team. Aged debt reporting needs to be specified, automated and used across the Council.

1.9 The revised Debt Management Policy attached at Appendix A seeks to address the issues raised above. Member's attention is specifically drawn to the following areas of the policy:

- To limit the circumstances in which credit will be offered and seek payment in advance wherever possible.
- The Council will encourage payment by electronic means and seek to eradicate payment by cash and cheques where possible
- The Council accepts payment by debit and credit card , making a 1.5% charge for credit card transactions – Para 4.5
- The Council makes use of debt collection agencies for hard to collect debts – Para 4.6
- The Council will set clear procedures for dunning processes for unregulated debts. - Para 4.6
- The Council will check other areas of the Council's business before refunds are issued and will seek to offset debts, including against creditor payments where possible – Para 4.16
- Where multiple debts are owed instalment repayments will be allocated on a pro rate basis unless the customer advises otherwise Para 4.10
- Collections staff will take into account customer's individual financial circumstances when agreeing instalment arrangements to ensure they are reasonable and will not cause undue financial hardship. Para 3.1(10)

An implementation plan set out in Appendix B, driven by the Head of Finance will seek to embed the new policy.

### **1.10 Financial Implications**

The Corporate Debt Management policy is designed to standardise processes for the granting of credit, the recognition of revenues, and the collection of debt. However, given the current economic outlook, and the welfare reforms being implemented from this financial year onwards, increased pressure will be felt by a large number of tenants and homeowners on their own budgets, and this will ultimately impact on their ability to pay their bills promptly.

The reduction in household's disposable income will obviously also have a detrimental effect to businesses in the city, with lower turnover, resulting in higher cases of closure, and even those businesses which do survive, will do so with lower income levels. Small businesses are also currently encountering difficulty in

securing affordable funding from the banking sector, which will result in poor cash flow, and therefore will find it more difficult to pay Council invoices promptly.

An implementation plan to embed the Debt Management Policy, together with the suggested changes contained within this report, will be driven by the Head of Finance.

### **1.11 Legal Implications**

Many discretionary Council services are provided on a contractual basis. All contracts and invoices or demands for payment should contain a clear explanation of the terms upon which the services are provided including terms as to payment. It is the breach of those terms which would entitle the Council to pursue, if necessary through legal proceedings, the recovery of the debt. Debtors will always receive a letter before action before proceedings are issued by the Council in the hope that the issuing of proceedings may be avoided.

There are a range of enforcement options available to the Council, including Court action such as instructing bailiffs, attachment of earnings orders, charging orders upon property, committal to prison, bankruptcy. Officers will use the most appropriate method of debt collection depending on the circumstances of the case and this may include a combination of a number of enforcement options.

### **1.12 Risk Implications**

By introducing this policy, there is reputation risk to the Council, as we are introducing stronger collections processes at a time when our customers are looking for more flexibility, rather than less. However, as part of the policy we are ensuring that all officers will be aware that there is a need to ensure that all customers who are struggling to fulfil their obligations in relation to debts with the council are provided details of organisations which can provide help and advice with regard to debt.

With the current economic climate, there is an increased risk of homelessness within the city, reducing incomes to the council, whilst increasing costs in re-housing homeless individuals and families.

Further deterioration of the economy may result in larger than expected cuts to local authority funding, adding pressure to an already reduced budget.

### **1.13 Equalities Impact Assessment**

The Public Sector Equality Duty requires public bodies to consider how the decisions that they make, and the services they deliver, affect people who share different protected characteristics which are; age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, marriage and civil partnership.

The main potential impact with this policy arises from the debts accrued through Council Tax and Housing rent arrears and can be associated with the socio-disadvantaged residents and low earners where there will inevitably be groups

with protected characteristics. The following table identifies potential risks and factors that may mitigate this

<b>Risks</b>	<b>Mitigations</b>
<p>Seeking to eradicate payment by cash or cheque could adversely affect those in this category as they will be less likely to have access to the alternative forms of payment</p>	<p>Work with relevant groups to educate and raise capability to manage finances through electronic methods. Ensure collection staff are aware of the need to support this</p> <p>To consider the impact on the debtor of the consequences of any recovery options pursued, and proportionality of these.</p>
<p>Inability to pay off debts or the negative impact of being unable to meet repayment agreements.</p>	<p>Individual case review and realistic repayment plans. Recognise the difference between the debtor who won't pay and the debtor that can't.</p> <p>Where appropriate, to encourage the debtor to make contact with relevant organisations for debt management advice.</p> <p>Ability to pay is a paramount concern when considering debt recovery. Discounts against Council Tax, and statutory benefits against Council house rents are provided on application, which are designed to offset the effects of low income and the ability to pay.</p>

## **Appendix A**

### **Oxford City Council – Corporate Debt Management Policy**

- 1. Background**
- 2. Introduction**
- 3. General Principles**
- 4. Delivering the Policy**
- 5. Social Inclusion**
- 6. Monitoring and Performance Measures**

## **1. Background**

Efficient and well administered debt management is vital to the Council; a corporate and consistent approach to debt management will be taken to ensure the Council's interests are protected, and residents who are struggling financially are supported to pay through the provision of appropriate advice and early intervention.

## **2. Introduction**

### **2.1 This policy:**

- sets out the general principles to be applied in relation to debt management across all services provided by Oxford City Council
- has been developed to ensure a consistent approach to the management of debts across the authority
- applies to all sums owing and all services/service areas of the Council
- includes provisions to assist customers to pay sums owed in a sustainable way
- ensures that before enforcement proceedings are commenced a review of each customer's financial circumstances takes place aimed at achieving a realistic and affordable agreed payment plan for all monies owed to the Council
- debtors will be signposted to debt advice as appropriate.

### **2.2 The main service areas involved in debt recovery are Customer Services, Finance, Direct Services, Law & Governance, Housing Services and Corporate Property.**

The debts involved are primarily:

- Council Tax
- Non Domestic Rates
- Overpaid Housing Benefit
- Housing Rent
- Commercial Rent
- Leaseholder payments
- Commercial and Garden Waste Collection
- Sundry Debts (includes licensing, sundry rents, subscriptions, etc.)
- Car Parking excess charges

### **2.3 It is vital the Council promptly collects optimal levels of income due within the agreed contracted terms of the service provided. This helps the Council to pay for the services it delivers. Non payment of bills ultimately impacts on the services the Council is able to provide. It is the Council's duty to be equitable, efficient and proportionate in the collection of monies owed. It makes sense for the Council, and all those paying for and receiving services, if the system for paying bills is as simple as possible.**

### **3. General Principles**

3.1 The general principles adopted in this policy are as follows:

- To ensure a professional, consistent and timely approach to debt recovery action across all of the Council's functions.
- To limit the circumstances in which credit is offered. To consider the customer's circumstances and ability to pay prior to granting any credit terms, and to only extend credit to those customers in a position to pay the debt in accordance with the Council's terms.
- If the customer's circumstances do not justify the granting of credit, payment in advance should be offered for the goods/services.
- For some debts, particularly those paid periodically, such as trade or garden waste, periodic rents, or licensing, Direct Debit should be the standard payment type, and other payment methods should only be considered on rare occasions.
- To promote a coordinated approach towards sharing debtor information and managing multiple debts owed to the Council.
- To improve the speed of collection and the levels of income collected by the Authority.
- To ensure that debts are managed in accordance with legislative provisions and best practice.
- To distinguish between the debtor who won't pay, and the debtor who can't pay, and take appropriate action in either case.
- To consider the impact on the debtor of the consequences of any recovery options pursued, and proportionality of these.
- To try and protect customers from undue financial hardship by ensuring realistic payment arrangements are agreed upon.
- To treat individuals consistently and fairly avoiding discrimination on any protected ground including age, sex, race, disability, sexual orientation, religion or belief, transgender and to ensure that individual's rights under data protection and human rights legislation are protected.
- Where appropriate, to encourage the debtor to make contact with relevant organisations for debt management advice.

### **4. Delivering the Policy**

4.1 When charging for goods and services provided, The Council will make it as easy as possible for Customers to pay by ensuring:

- That invoices are raised promptly and accurately whilst the customer still recalls the transaction (for the avoidance of doubt, this should be within 5 working days of provision of the goods or services).



- That invoices include sufficient details of the goods/services provided to enable the debtor to recognise the service provided and pay the invoice in a timely manner.
- That invoices are correctly addressed and posted to the customer. The name on the invoice will be that of a person or body possessing “legal personality” based on the information available

***All Invoices will include:***

- Information on how and where payments can be made i.e. giving all the various options we offer, for example:-
    - Bank account details for Bank transfers
    - Paypoint
    - At Post Offices
    - Postal Address
  - A unique reference so that the customer is able to quote the appropriate document numbers to enable their account to be credited quickly and accurately.
- 4.2 All invoices raised will be on headed paper and readily identifiable as being issued by the Council.
- 4.3 The Council will encourage the most cost effective payment methods with the emphasis being on unmediated electronic means wherever possible. “Unmediated”, in the context of electronic payment methods means a method of payment that requires no human intervention by officers of the Council to achieve its crediting to the appropriate customer account.
- 4.4 The Council will promote the use of Direct Debit as a preferred payment method, maximising the use of this wherever possible. Also, as per the aims of the Council, it will discourage the use of cash and cheque, attempting wherever possible, to persuade customers to use more electronic methods of payment.
- 4.5 The Council will accept payment of debt by credit/debit card, but will levy a charge (currently 1.5%) for payment by credit card to cover transaction charges
- 4.6 The Council recognises that prompt recovery action is key in managing its debt, and maximising income. The Council will therefore:
- Monitor the level and age of all debts on a monthly basis
  - Set clear targets for the recovery of debt.
  - Review its recovery procedures, including agreed dunning cycles for all debts, escalation processes and recovery action on an annual basis, to ensure they remain effective and comply with best practice. For clarity, the dunning cycle on non-regulated debts should commence on the due date of the debt, with any secondary contact within a maximum of 14 days. This will assist in the prompt collection of overdue debt.

- Should the normal dunning letter process be unsuccessful, prompt recovery action, either utilising collection agencies, or legal action, should follow within a further 14 days.
  - Regularly review the types of recovery action taken to assess the relative merits of each. To include but not limited to: - dunning processes, collections agencies, bailiffs action, court action, payment plans, etc.
  - Agree escalation routes on a case by case basis, ensuring that collections action is proportionate to the level of debt owed, and can be clearly proven as appropriate should the debtor later appeal against any actions taken.
  - Introduce appropriate levels of fines for failure to advise the Council of changes of circumstances which would affect charges. Initial charge for failure to advise could be as high as £70, followed by further charges of up to £280 each time information is requested, but not provided. Officers of the Council to ensure that the levels of any such fines are proportionate to the level of debt.
  - Regularly review debts, and those considered impossible to recover after exhausting all reasonable enforcement methods, or where recovery may prove uneconomic, should be written off.
- 4.7 The approval rules for the writing off of debts are as set out in the Financial Rules of the Constitution
- 4.8 Where legislation permits, the Council will seek to levy and recover from the debtor any and all costs/fees that are legitimately due from the debtor to the Council or its agents. Only in exceptional circumstances, where it would not be in the public interest to pursue costs/fees will they be waived.
- 4.9 The costs/fees due from the customer may include penalties for non disclosure of information relating to any change in circumstances which would affect the calculation of charges to the customer.
- 4.10 Where possible, all debts owed to the Council, regardless of where the debt originated, will be taken into consideration when referring the debt for legal recovery.
- 4.11 Where multiple debts are owed to the Council, wherever possible we will seek to consolidate those debts when taking recovery action. Any payments made by the customer, when multiple debts are owed, will be allocated against each debt on a Pro Rata basis, thereby clearing all debts at the same time.
- 4.12 Unless legislation dictates otherwise, the Council will not raise single invoices for values of £25 or less, and will require payment in advance for all transactions at this level.
- 4.13 Interim invoices will be issued where full costs remain unclear at one month from service delivery.
- 4.14 Invoices will not be issued where goods or service have not been delivered.

4.15 It is the Council's intention that invoices will be sent to customers via email wherever possible. To this end, the relevant Business Unit is responsible for obtaining the email address/s of all new customers at the point of agreeing to provide goods or service/s. All email addresses held by the Authority will be subject to the Council's data protection policy, a link to which is below.

<I:\Debt Policy\Data Protection Policy draft.doc>

4.16 All documentation relating to a demand will be kept either in paper or scanned image format for at least six years after the demand is raised. If at the end of that six year period the demand still remains unpaid, the supporting documentation may be retained until either the bill is paid or the debt is written off.

### **Refunds/Contras**

4.17 Should a refund be required for a customer, the officer responsible for actioning the refund will firstly check all other areas, to ascertain whether any debt is owed to the Council for any other goods or service provided, and take that indebtedness into account, before making any refund.

4.18 Likewise, when the customer is also a supplier to the Council, if overdue debt is outstanding, the Council reserve the right to offset any overdue debts owed to the Council from the monies owed to the supplier. All future supplier contracts will include a clause clarifying this right.

## 5. **Social Inclusion**

- 5.1 Ability to pay is a paramount concern when considering debt recovery. Discounts against Council Tax, and statutory benefits against Council house rents are provided on application, which are designed to offset the effects of low income and the ability to pay.
- 5.2 Charging policy, statutory or discretionary, will never completely remove the problems of people and families on low incomes. The approach to recovery must therefore be sensitive to individual circumstances and take into account multiple debts owed. Where possible, the Council will enable customers to make one, realistic and affordable repayment arrangement to clear **all** monies owed to the Council.
- 5.3 At all stages of the debt recovery process, collections staff should be mindful of the customer's financial situation, and be prepared to promote the services of qualified debt advisers (i.e. C.A.B., National Debt-Line, neighbourhood advice centres, etc.).
- 5.4 Where multiple debts are owed, each instalment payment agreed upon will be allocated on a pro rata basis to each debt, until all overdue debts are cleared, unless the customer specifies, in writing, the order in which they want the debts to be cleared. The customer should be made aware of any consequences of making this choice.
- 5.5 A standardised "income and expenditure" form will be used to ensure that collections officers can ascertain a customer's total income and expenditure, and agree a single, affordable, payment, which will clear all overdue sums in an appropriate period of time.
- 5.6 Income relating to all types of debt should be handled in accordance with the Council's Constitution and the Financial Rules (contained within Section 18.20). Link below.  
<http://mycouncil.oxford.gov.uk/documents/s12006/Constitution %20Whole.pdf>

### **Monitoring and Performance Measures**

- 6.1 The monitoring of debts for the authority is undertaken through the use of performance indicators for all debts listed above, which are submitted to Senior Management on a monthly basis by the relevant Service Area.
- 6.2 The Performance targets are set annually by the relevant Head of Service and constantly reviewed throughout the course of the year.
- 6.3 The Performance targets are also reported monthly to the Corporate Management Team, and quarterly to the City Executive Board. Where performance is deemed to be below optimum levels, a performance “clinic” will be undertaken to review the issues and agree actions to rectify the situation.

This page is intentionally left blank